



**Office of the Washington State Auditor**  
**Pat McCarthy**

## **Financial Statements Audit Report**

# **City of Battle Ground**

**Clark County**

**For the period January 1, 2016 through December 31, 2016**

**Published June 8, 2017**

**Report No. 1019277**





**Office of the Washington State Auditor**  
**Pat McCarthy**

June 8, 2017

Mayor and City Council  
City of Battle Ground  
Battle Ground, Washington

**Report on Financial Statements**

Please find attached our report on the City of Battle Ground's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy  
State Auditor  
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Battle Ground  
Clark County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Battle Ground  
Battle Ground, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, Clark County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 31, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

May 31, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Battle Ground Clark County January 1, 2016 through December 31, 2016

Mayor and City Council  
City of Battle Ground  
Battle Ground, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, Clark County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 10.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Battle Ground, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 21, information on postemployment benefits other than pensions on page 66 and pension plan information on pages 67 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

May 31, 2017

## **FINANCIAL SECTION**

### **City of Battle Ground Clark County January 1, 2016 through December 31, 2016**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Activities – 2016

Balance Sheet – Governmental Funds – 2016

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2016

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities – 2016

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual  
– General Fund – 2016

Statement of Net Position – Proprietary Funds – 2016

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds  
– 2016

Statement of Cash Flows – Proprietary Funds – 2016

Notes to Financial Statements – 2016

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Other Post-Employment Benefits Schedule of Funding Progress – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – PERS 2/3 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability – LEOFF 2 – 2016

Schedule of Employer Contributions – PERS 1 – 2016

Schedule of Employer Contributions – PERS 2/3 – 2016

Schedule of Employer Contributions – LEOFF 2 – 2016

Notes to Required Supplementary Information – Pensions – 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Battle Ground's (city) discussion and analysis is a narrative overview of the city's financial activities for the fiscal year ending December 31, 2016. The information presented here should be read in conjunction with the letter of transmittal, the financial statements, and the notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The city's overall financial position improved in 2016 as compared to 2015 as evidenced by an increase of 2.1% in the change in total net position.
- Assets of the city exceeded its liabilities at December 31, 2016 by \$114.9 million. Of this net position amount, net investment in capital assets is \$88.3 million. Restricted net position is \$6.5 million and earmarked for debt service, capital projects and pension. Unrestricted net position is \$20.2 million and used to meet the city's ongoing obligations to citizens and creditors.
- As of December 31, 2016, the city's total governmental funds reported combined ending fund balances of \$10.7 million. \$5.7 million is restricted for capital purposes, drug investigation, and tourist promotion. \$5.0 million is unrestricted (includes committed, assigned, and unassigned). Unrestricted fund balance is available for spending at the city's discretion.
- Unrestricted fund balance in the general (operating) fund was \$4.7 million at December 31, 2016. This unrestricted fund balance increased \$1,039,876 from the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the city's basic financial statements and is intended to assist users in interpretation of the basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements.

#### **Government-wide Financial Statements**

Government-wide financial statements present the city's financial condition in a manner similar to private sector statements. These statements distinguish functions of the city that are primarily supported by taxes and intergovernmental revenues ("governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges ("business-type activities").

Governmental activities of the city include a full range of local government services provided to the public, such as law enforcement and public safety; fire protection; road construction and maintenance; community planning and development; parks and recreation facilities; and other community services. These activities are primarily supported by taxes, licenses and permits, fines and forfeitures, and charges for general governmental services.

Business-type activities of the city are mainly supported by user fees and charges. The business-type activities of the city include storm water drainage, water, and sewer utilities and internal services for fleet administration and technology.

### **Statement of Net Position**

This statement presents financial information on all of the city's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. This statement serves a purpose similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as one indicator of whether the financial position of the city is improving or deteriorating.

### **Statement of Activities**

This statement provides information designed on how the city's net position changed during the fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. Revenue generated by the specific functions (charges for services, grants, and contributions) is compared to expenses for those functions to show the degree to which each function supports itself or relies on taxes and other general funding sources for support. All changes in net position are reported using the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of the timing of related cash flows. Items such as, but not limited to, uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses, even though no cash has changed hands.

### **Fund Financial Statements**

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The city, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. All of the city's funds are divided into two categories: governmental funds or proprietary funds.

### **Governmental Funds**

The *Governmental Fund Balance Sheet* and the *Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances* present separate columns of financial data for the general fund. The general fund is considered a major fund. The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Data from the remaining governmental funds are combined into a single, aggregated presentation.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at year end. Such information is useful in evaluating a government's near-term financing requirements in comparison to resources available.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The city maintains budgetary controls over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level for all funds in accordance with state law. Budgetary comparison schedules are presented in this report following the combining statements of other governmental funds.

### **Proprietary Funds**

Proprietary funds account for business-type activities. Business-type activities provide specific goods or services to a group of customers paid for by fees charged to those customers. The city has two types of proprietary fund: enterprise funds and internal service funds. Enterprise funds account for goods and services provided to citizens and the community. Internal service funds account for goods and services provided internally to various city departments. The same basis of accounting is used for proprietary funds in both the government-wide statements and the individual fund statements.

**Enterprise funds** report the same functions presented as business-type activities in the government-wide financial statements. Fund statements provide more detail than is reported in the government-wide statements. The city uses enterprise funds to account for storm water drainage, water, and sewer utilities.

**Internal service funds** report activities that provide supplies and services for city programs. Internal service funds account for fleet administration and technology. Given that these services benefit governmental operations more than business-type functions, internal service funds are included within governmental activities in the government-wide financial statements.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

### **Other Information**

This report also presents certain required supplementary information regarding pension related data and postemployment medical benefits to uniformed personnel hired before October 1, 1977. Required supplementary information is located immediately following the notes to the financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Statement of Net Position**

The *Statement of Net Position* can serve as a useful indicator of the city's financial position. The city's total net position was \$114.9 million at December 31, 2016 as compared to \$112.5 at December 31, 2015. The following is a condensed version of the *Government-wide Statement of Net Position*.

City of Battle Ground Net Position						
	Governmental activities		Business-Type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 12,214,358	\$ 10,628,516	\$ 19,159,258	\$ 16,505,709	\$ 31,373,616	\$ 27,134,225
Capital assets (net of depr)	50,763,389	52,338,100	58,171,629	60,167,440	108,935,018	112,505,540
Total assets	62,977,747	62,966,616	77,330,887	76,673,149	140,308,634	139,639,765
Deferred Outflows Pensions	729,472	389,889	142,259	76,127	871,731	252,145,305
Long-term liabilities	13,805,717	15,307,438	9,996,270	10,116,213	23,801,987	25,423,651
Other liabilities	1,829,821	878,306	507,178	531,449	2,336,999	1,409,755
Total Liabilities	15,635,538	16,185,744	10,503,448	10,647,662	26,138,986	26,833,406
Deferred Inflows Pensions	85,501	590,888	24,556	98,103	110,057	28,243,161
Net investment in capital assets	39,534,273	40,356,369	48,777,185	50,545,433	88,311,458	90,901,802
Restricted for:						
Capital	5,488,961	4,303,975			5,488,961	4,303,975
Pension	453,785	801,449			453,785	801,449
Debt Services			301,875	299,804	301,875	299,804
Drug Investigations	60,291	63,090			60,291	63,090
Tourist Promotion	156,483	144,631			156,483	144,631
Unrestricted	2,292,387	860,218	17,866,082	15,158,274	20,158,469	16,018,492
Total net position	\$ 47,986,180	\$ 46,529,732	\$ 66,945,142	\$ 66,003,511	\$ 114,931,322	\$ 112,533,243

At December 31, 2016, the city reports positive balances in all three categories of net position, for the government as a whole, as well as for separate governmental and business-type activities.

The largest portion (77%) of the city's net position reflects its investment in capital, less any related outstanding debt used to acquire those assets. The city's capital assets provide services to citizens. Consequently, these assets are not available for future spending. At the end of the fiscal year, the city had \$5.79 million in net position restricted for capital or capital related debt. Of these restricted assets, \$301,875 is in the Sewer Fund for debt service, \$3,269,901 in the Traffic Impact Fund, \$937,761 in the Park Impact Fund, \$1,141,471 in the Real Estate Tax Fund, and \$139,828 in the Fire Impact Fund. In addition, the city had \$60,291 for drug investigations and \$156,483 for tourist promotion in restricted funds. The remaining unrestricted balance of \$20,158,469 represents the amount that may be used to meet ongoing city obligations.

#### Statement of Activities

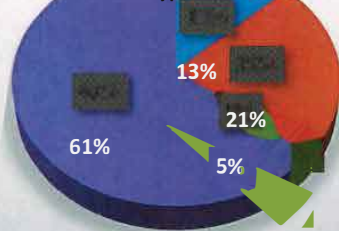
The *Statement of Activities* reports the change in net position for the fiscal year. At December 31, 2016, total ending net position increased by \$2.4 million. Business-type funds increased by \$0.9 million primarily due to infrastructure contributions by developers. Net position of governmental activities increased by \$1.5 million due to increased building activity and consumer spending.

The full statement is a tabular depiction of the relationship of revenues and expenses for the city's governmental activities and proprietary funds. The graphs that follow illustrate the sources of revenue and the balance of governmental versus business type expenses for 2016.

### City of Battle Ground Statement of Activities

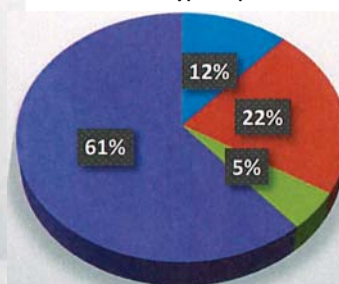
	Governmental activities		Business-Type activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 3,556,063	\$ 2,935,524	\$ 7,104,555	\$ 6,494,724	\$ 10,660,618	\$ 9,430,248
Operating Grants and Contributions	1,104,258	891,157		115	1,104,258	891,272
Capital Grants and Contributions	528,232	1,409,148	2,598,683	3,821,847	3,126,915	5,230,995
General revenues:						
Property taxes	2,816,320	2,752,356			2,816,320	2,752,356
Sales taxes	2,949,812	2,553,298			2,949,812	2,553,298
Other taxes	4,292,331	3,887,303			4,292,331	3,887,303
Interest income	72,726	50,427	128,293	91,804	201,019	142,231
Other revenues	445,489	389,546	142,170	195,043	587,659	584,589
<b>Total Revenues</b>	<b>15,765,231</b>	<b>14,868,759</b>	<b>9,973,701</b>	<b>10,603,533</b>	<b>25,738,932</b>	<b>25,472,292</b>
<b>Expenses</b>						
General government	1,884,953	1,955,510			1,884,953	1,955,510
Judicial	569,422	587,230			569,422	587,230
Public Safety	4,303,774	4,014,769			4,303,774	4,014,769
Physical environment	2,325,492	2,332,297			2,325,492	2,332,297
Transportation	2,871,534	2,959,111			2,871,534	2,959,111
Economic environment	849,069	838,813			849,069	838,813
Culture and recreation	1,027,123	866,175			1,027,123	866,175
Storm Drainage			1,158,748	1,013,546	1,158,748	1,013,546
Water			2,691,560	2,524,181	2,691,560	2,524,181
Sewer			5,181,762	5,639,263	5,181,762	5,639,263
Interest on long term debt	477,416	504,353			477,416	504,353
<b>Total Expenses</b>	<b>14,308,783</b>	<b>14,058,258</b>	<b>9,032,070</b>	<b>9,176,990</b>	<b>23,340,853</b>	<b>23,235,248</b>
Excess (deficiency) before contributions, and transfers.	1,456,448	810,501	941,631	1,426,543	2,398,079	2,237,044
Special Item - Gain on Sale of Capital Asset				(1,578,801)		(1,578,801)
Special Item - Gain on Transfer of Debt				8,598,091		8,598,091
Changes in Net Position	1,456,448	810,501	941,631	8,445,833	2,398,079	9,256,334
Net Position - beginning	46,529,732	47,537,213	66,003,511	58,251,209	112,533,243	105,788,422
Change in Accounting Principle		(1,817,982)		(693,531)		(2,511,513)
Net Position as of January 1 restated	46,529,732	45,719,231	66,003,511	57,557,678	112,533,243	103,276,909
Net Position - ending	\$ 47,986,180	\$ 46,529,732	\$ 66,945,142	\$ 66,003,511	\$ 114,931,322	\$ 112,533,243

**2016 Comparison of Total Governmental Revenues vs. Business-Type Revenues**



■ Water ■ Sewer ■ Stormwater ■ Govt

**2016 Comparison of Total Governmental Expenses vs. Business-Type Expenses**



■ Water ■ Sewer ■ Stormwater ■ Govt

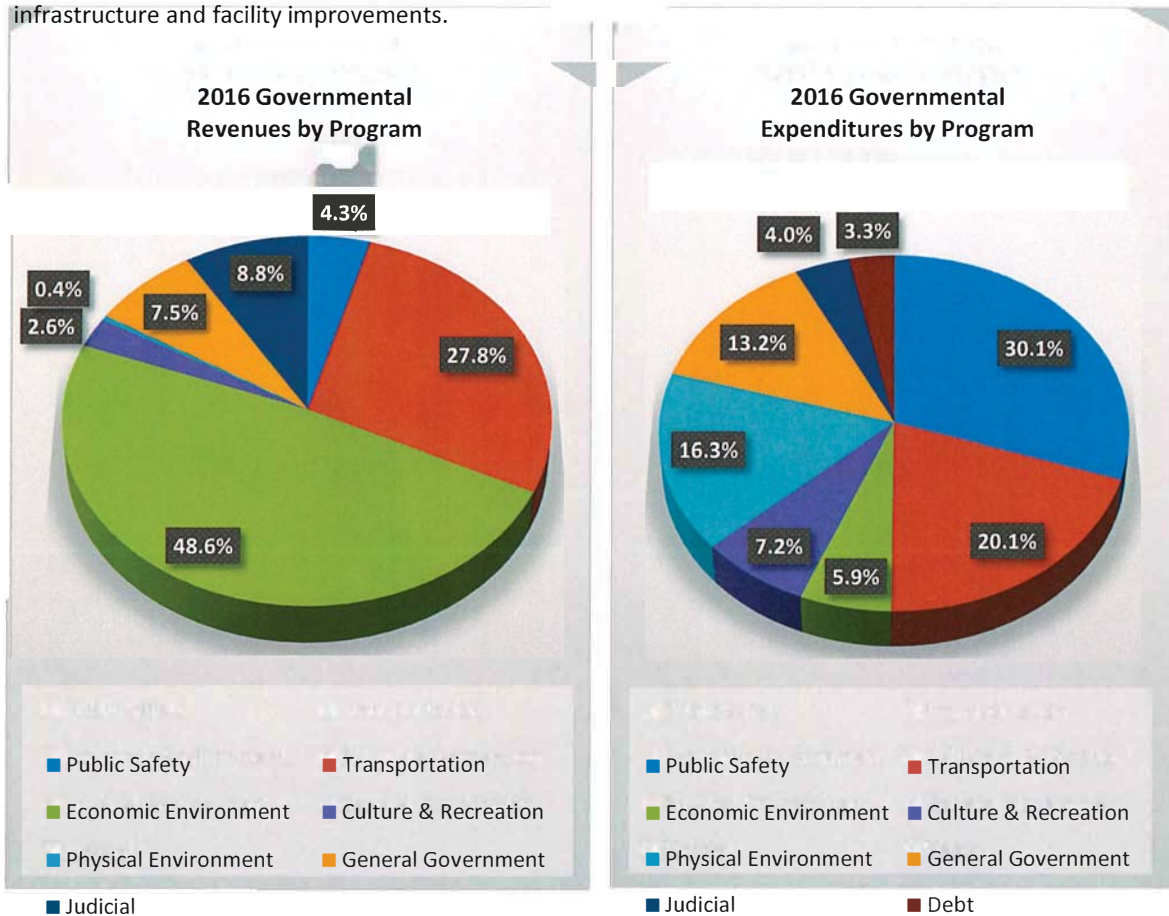


### Governmental Activity Analysis

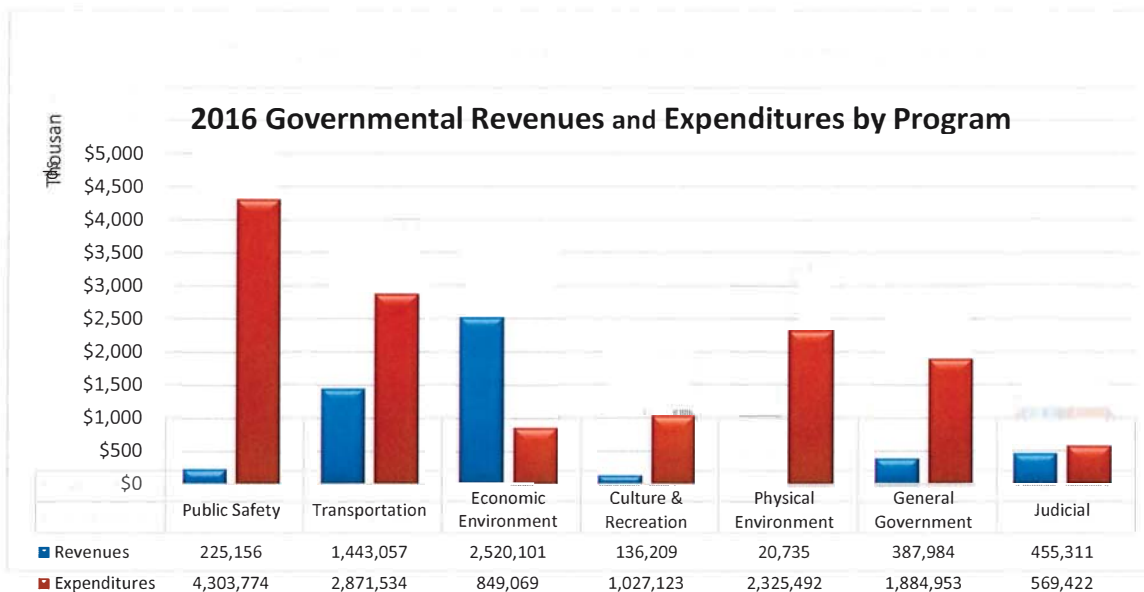
The City of Battle Ground's property tax rate decreased slightly due to increasing assessed valuations. Property taxes collected in fiscal year 2016 increased \$63,964 from new construction and the authorized one percent increase in property tax revenue by Initiative 747. Sales tax collected increased \$396,514 (15.5%) from the prior year due to continuing improvement in the local economy.

Revenues tied to residential development and home purchases continued in 2016. Transportation impact fees increased by \$103,755 (20.6%), real estate excise taxes increased by \$295,339 (43.7%), and park impact fees increased by \$436,794 (120%) from the prior year.

Governmental activities expenses increased \$250,525 (1.7%) over the prior year. After many years of cost reductions and deferral of street, parks, and facility maintenance, efforts are underway to prioritize and fund infrastructure and facility improvements.

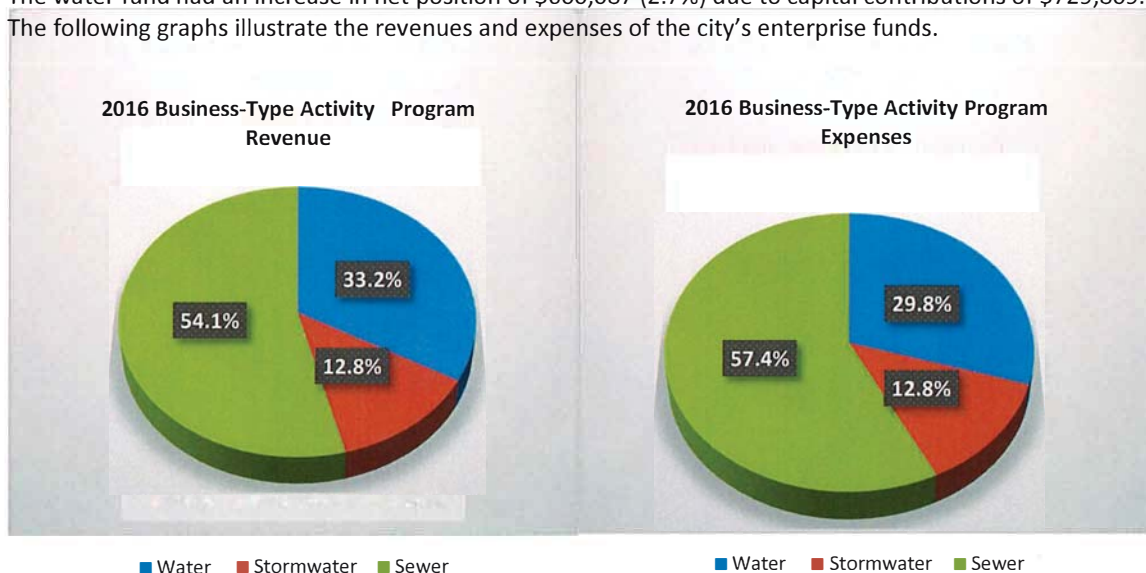






#### **Business-Type Activities Analysis**

The financial position of the city's business-type funds consists of the storm drainage, water and sewer funds. The storm drainage fund had an overall increase in net position of \$107,209 (1.0%) primarily due to capital contributions of \$177,742. The sewer fund had an overall increase in net position of \$188,142 (.5%). This small increase was due to capital contributions of \$1,652,603 exceeding an operating loss of \$1,326,011. The water fund had an increase in net position of \$600,087 (2.7%) due to capital contributions of \$729,809. The following graphs illustrate the revenues and expenses of the city's enterprise funds.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### **Governmental Funds Analysis**

As noted earlier, the City of Battle Ground uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the city's governmental funds is to provide information on near-term inflow, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. Unassigned fund balance may serve as a useful measure of the city's net resources available for discretionary use as these resources represent the portion of fund balance which has not yet been limited as to use for a particular purpose by either an external party, the city itself, or a group or individual that has been delegated authority to assign resources for specific purposes by city council.

At December 31, 2016, the city's governmental funds reported combined fund balances of \$10.7 million, an increase of \$2.4 million over 2015. \$1,744,474 (16.3%) of this amount constitutes unassigned fund balance, which is available for spending at the city's discretion. The remainder of the fund balance is either: 1) restricted for particular purposes (\$5,705,735), 2) committed for particular purposes (\$2,455,518), or 3) assigned for particular purposes (\$772,215).

The general fund is the chief operating fund of the City of Battle Ground. At the end of the fiscal year, unassigned fund balance of the general fund was \$1,744,474, while total fund balance increased to \$4,717,167. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. Unassigned fund balance represents approximately 15.2% of total general fund expenditures, while total fund balance represents approximately 41.2% of that same amount.

### **Business-Type Funds Analysis**

The city's proprietary fund financial statements provide the same type of information found in the government-wide financial statements for business-type activities, although in more detail. Internal service funds, although proprietary, are not included within business-type activities.

Proprietary funds are those funds that account for government operations where the intent is for the costs to be primarily paid for by user charges. Enterprise funds are those funds that provide services primarily to external users, and internal service funds provide their services primarily within the city, or to other governmental units. The city has three business-type funds, all of which are enterprise funds.

The water fund and the sewer fund are the two largest enterprise funds of the city. The water fund accounts for 34%, the sewer fund 50%, and the storm drainage fund 16% of the total net position for enterprise funds. The water fund had total net position at year-end of \$22.8 million, the sewer fund \$33.4 million, and the storm drainage fund \$10.4 million. The utility funds each showed an operating loss, primarily for depreciation expense. After capital contributions and interest earnings, all enterprise funds reported an increase in net position.

Total water fund operating revenues for 2016 were \$2.51 million as compared to \$2.39 million in 2015. Total operating expenses were \$2.60 million as compared to \$2.46 million in 2015. This increase is primarily due to increases in depreciation expense from infrastructure and equipment purchases and personnel costs.

Total sewer fund operating revenues for 2016 were \$3.66 million as compared to \$3.33 million in 2015. Total operating expenses were \$4.98 million as compared to \$5.44 million in 2015. The decrease in operating expenses was due to a decrease in intergovernmental service costs by \$439,621 related to the deferral of capital projects.

Total storm drainage operating revenues for 2016 were \$1,035,608 as compared to \$872,188 in 2015. Total operating expenses were \$1.16 million as compared to \$1.01 million in 2015.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

In 2015, the city appropriated funds through the adoption of the 2015-2016 biennial budget. The following table shows the changes between the original and the final biennial general fund budget (includes reserve funds), and the variances between the final budget to actual revenues and expenditures:

	Original 2015-2016 budget	Final 2015-2016 Budget	Change Positive/ Negative	Actual Biennium	Variance Positive / (Negative)	Percentage of Actual to Budget
<b>Revenues:</b>						
Taxes	\$ 16,790,545	\$ 16,790,545	\$ -	\$ 17,543,626	\$ 753,081	104%
License and permits	1,419,916	1,419,916	-	1,667,960	248,044	117%
Intergovernmental	954,950	1,016,372	61,422	1,337,207	320,835	132%
Charges for services	3,105,688	3,105,688		3,048,218	(57,470)	98%
Other revenues	1,055,865	1,055,865		1,051,163	(4,702)	100%
Total revenues	23,326,964	23,388,386	61,422	24,648,174	1,259,788	105%
<b>Expenditures:</b>						
General government	6,024,957	6,024,957		5,274,960	749,997	88%
Security/Persons and property	7,968,627	7,985,463	(16,836)	7,820,797	164,666	98%
All other expenditures	7,851,173	7,860,173	(9,000)	7,920,271	(60,098)	101%
Total Expenditures	21,844,757	21,870,593	(25,836)	21,016,028	854,565	96%
Excess (Deficiency of Revenues) Over (under) expenditures	1,482,207	1,517,793	35,586	3,632,146	2,114,353	239%
<b>Other financing sources:</b>						
Interfund transfers	(2,360,025)	(2,280,806)	79,219	(1,940,311)	340,495	85%
Net change in fund balance	(877,818)	(763,013)	114,805	1,691,835	2,454,848	-222%
Fund balance as of January 1	1,880,867	1,880,867		1,880,867		100%
Fund balance as of December 31	\$ 1,003,049	\$ 1,117,854	\$ 114,805	\$ 3,572,702	\$ 2,454,848	320%

The difference between the original general fund budget expenditures and the final amended budget was an increase of \$25,836. This change reflects an increase in the law enforcement department budget. On a biennium basis for 2015-2016 for the general fund, actual revenues were 105% of budget and actual expenditures were 96% of budget.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

The city's investment in capital assets, including construction in progress, totals \$108,935,018 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, infrastructural improvements, intangible assets, machinery and equipment, park facilities, and construction in progress. This reflects a decrease in net capital assets of \$3,570,522 in 2016.

	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2015	2016	2015	2016	2015
Land	\$ 15,996,830	\$ 15,996,830	\$ 2,982,132	\$ 2,982,132	\$ 18,978,962	\$ 18,978,962
Construction in progress	403,177	333,601	277,848	207,966	681,025	541,567
Buildings	10,317,639	10,644,114	955,228	989,167	11,272,867	11,633,281
Machinery and equipment	1,363,927	1,029,117	86,531	67,723	1,450,458	1,096,840
Infrastructure	22,064,144	23,666,725	39,188,670	40,147,558	61,252,814	63,814,283
Improvements other than buildings	617,672	667,713	29,596	31,240	647,268	698,953
Intangible assets			14,651,624	15,741,654	14,651,624	15,741,654
Total	\$ 50,763,389	\$ 52,338,100	\$ 58,171,629	\$ 60,167,440	\$ 108,935,018	\$ 112,505,540

Major capital assets events during the 2016 fiscal year included the following:

- Completion of NE 1<sup>st</sup> street sidewalk project at cost of \$168,914
- Developer contributions to city streets valued at \$391,720
- Developer contributions to water valued at \$161,879

Additional information on the city's capital assets is located in Note 4 in the notes to the financial statement in this report.

#### Long-term Debt

At December 31, 2016, the city had total long-term debt outstanding of \$20,522,452. Of this amount, \$9,755,000 is general obligation debt. General obligation bonds are direct obligations and pledge the full faith and credit of the city. The city's remaining capacity for non-voted long-term general obligation debt is approximately \$13.6 million. Standard and Poor's last affirmed the city's rating of "AA-" for its general obligation debt in September 2014 citing strong budgetary flexibility and management.

In 2015, the city entered into capital leases totaling \$270,594 for the purchase of digital radio equipment and a phone system. In 2016, the city entered into a capital lease for \$263,000 to purchase three police vehicles, a work crew van, and two utility fund vehicles. Outstanding capital lease obligations at December 31, 2016 are \$673,008.

At December 31, 2016 there were also outstanding government long-term loans made by the State of Washington under the Public Works Trust Fund Loan Program of \$700,000 and sewer revenues bonds of \$9,178,450.

The table below is a comparison of the summary for outstanding debt at December 31, 2015 and 2016.

	City of Battle Ground's Outstanding Debt					
	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2015	2016	2015	2016	2015
General obligation bond	\$ 9,755,000	\$ 10,485,000	\$	\$	\$ 9,755,000	\$ 10,485,000
Capital leases	673,008	579,894			673,008	579,894
Government loans	700,000	800,000	215,994	269,993	915,994	1,069,993
Revenue bonds			9,178,450	9,352,014	9,178,450	9,352,014
Total	\$ 11,128,008	\$ 11,864,894	\$ 9,394,444	\$ 9,622,007	\$ 20,522,452	\$ 21,486,901

Additional information on the city's long-term debt is located in Note 7 in the notes to the financial statement in this report.

## **ECONOMIC OUTLOOK AND FUTURE CONDITIONS**

The city serves as an economic and social hub for about 80,000 people living in and around Battle Ground. Although the “great recession” has been a challenge to the city’s budget and level of services, the economy steadily improved during 2016. Residential and commercial development increased in the city while the broader regional economy also improved with increased employment and economic development.

The city’s adopted financial policies continue to guide the financial operations and biennial budget process. 2016 was the final year of the 2015-2016 biennial budget. Council adopted the 2017-2018 biennial budget by Ordinance 16-22. The 2017-2018 biennial budget continues to address aspects of the ongoing structural deficit while focusing on core services identified by city council: 1) provide a high level of public safety, 2) improve the condition and presentation of city assets to promote livability and a more welcoming environment, and 3) adopt workflow efficiencies to improve affordability and cost-effectiveness of service delivery.

Unforeseen economic conditions could affect 2017-2018 budget forecasts. Adjustments to fund forecasts may be necessary if major assumptions change. These assumptions include:

- Utility rate increases continue to support adopted master plans, but customer utility costs remain below industry affordability thresholds based on median household incomes
- Residential and commercial developments continue as projected
- Legislative budget decisions will not have adverse impacts on state-shared revenues to cities

The city is challenged with maintaining and gradually replacing aging infrastructure, including streets, utility lines, buildings, and other community assets. Major projects for 2017 include the following:

- Complete street maintenance (annual work plan) – Funding through the Transportation Benefit District (TBD) car tab fee annual revenue of \$250,000
- Complete construction of South Parkway - Road funding through state grants and the TBD
- Complete construction of NW 5<sup>th</sup> Way – Road funding through state grant
- Complete construction of Chelatchie Rails with Trails – Pedestrian trail funding through federal grant
- Sewer lift stations – Funding through utility reserves

### **Requests for Information**

This financial report provides a general overview of City of Battle Ground’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report, or requests for additional financial information, address to the Finance Department, City of Battle Ground, 109 SW 1<sup>st</sup> Street, Suite 217, Battle Ground, WA, 98604.

**CITY OF BATTLE GROUND**  
Statement of Net Position  
December 31, 2016

	Governmental Activities	Business-type Activities	Total Primary Government
<b>Assets</b>			
Cash and Cash Equivalents	\$ 9,045,221	\$ 15,153,636	\$ 24,198,857
Investments	1,495,635	2,507,069	4,002,704
Receivables	1,539,614	876,781	2,416,395
Internal Balances	(319,897)	319,897	-
Restricted Assets			
Cash and Cash Equivalents	-	301,875	301,875
Net Pension Asset	453,785	-	453,785
Capital Assets (not being depreciated)			
Land	15,996,830	2,982,132	18,978,962
Construction Work in Progress	403,177	277,848	681,025
Capital Assets (net of accumulated depreciation)			
Buildings	10,317,639	955,228	11,272,867
Improvements Other than Buildings	617,672	29,596	647,268
Intangible Assets	-	14,651,624	14,651,624
Machinery and Equipment	1,363,927	86,531	1,450,458
Infrastructure	22,064,144	39,188,670	61,252,814
Total Assets	<u>62,977,747</u>	<u>77,330,887</u>	<u>140,308,634</u>
<b>Deferred Outflows of Resources</b>			
Related to Pensions	729,472	142,259	871,731
Total Deferred Outflows of Resources	<u>729,472</u>	<u>142,259</u>	<u>871,731</u>
<b>Liabilities</b>			
Accounts Payable	288,486	63,254	351,740
Other Current Liabilities	188,930	30,571	219,501
Accrued Interest Payable	46,039	98,820	144,859
Unearned Revenue	9,000	-	9,000
Custodial Deposits	206,187	-	206,187
Noncurrent Liabilities			
Due within One Year	1,091,179	314,533	1,405,712
Due in More than One Year	11,253,302	9,183,801	20,437,103
Net Pension Liability	2,552,415	812,469	3,364,884
Total Liabilities	<u>15,635,538</u>	<u>10,503,448</u>	<u>26,138,986</u>
<b>Deferred Inflows of Resources</b>			
Related to Pensions	85,501	24,556	110,057
Total Deferred Inflows of Resources	<u>85,501</u>	<u>24,556</u>	<u>110,057</u>
<b>Net Position</b>			
Net Investment in Capital Assets	39,534,273	48,777,185	88,311,458
Restricted for			
Capital	5,488,961	-	5,488,961
Pension	453,785	-	453,785
Debt Service	-	301,875	301,875
Drug Investigation	60,291	-	60,291
Tourist Promotion	156,483	-	156,483
Unrestricted	2,292,387	17,866,082	20,158,469
Total Net Position	<u>\$ 47,986,180</u>	<u>\$ 66,945,142</u>	<u>\$ 114,931,322</u>

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
Statement of Activities  
For the year ended December 31, 2016

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business -type Activities	Total
<b>PRIMARY GOVERNMENT</b>								
Governmental Activities:								
General Government	\$ 2,932,009	\$(1,047,056)	\$ 387,984	\$ -	\$ -	\$ (1,496,969)	\$ -	\$ (1,496,969)
Judicial	569,422	-	446,311	9,000	-	(114,111)	-	(114,111)
Public Safety	4,303,774	-	68,535	156,621	-	(4,078,618)	-	(4,078,618)
Physical Environment	2,325,492	-	20,735	-	-	(2,304,757)	-	(2,304,757)
Transportation	2,871,534	-	-	914,825	528,232	(1,428,477)	-	(1,428,477)
Economic Environment	849,069	-	2,520,101	-	-	1,671,032	-	1,671,032
Culture and Recreation	1,027,123	-	112,397	23,812	-	(890,914)	-	(890,914)
Interest Expense	477,416	-	-	-	-	(477,416)	-	(477,416)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>15,355,839</b>	<b>(1,047,056)</b>	<b>3,556,063</b>	<b>1,104,258</b>	<b>528,232</b>	<b>(9,120,230)</b>	<b>-</b>	<b>(9,120,230)</b>
Business Type Activities:								
Storm Drainage	843,272	315,476	1,035,170	38,529	177,742	-	92,693	92,693
Water	2,352,386	339,174	2,503,684	-	729,809	-	541,933	541,933
Sewer	4,789,356	392,406	3,565,701	-	1,652,603	-	36,542	36,542
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>7,985,014</b>	<b>1,047,056</b>	<b>7,104,555</b>	<b>38,529</b>	<b>2,560,154</b>	<b>-</b>	<b>671,168</b>	<b>671,168</b>
<b>Total Primary Government</b>	<b>\$ 23,340,853</b>	<b>\$ -</b>	<b>\$ 10,660,618</b>	<b>\$ 1,142,787</b>	<b>\$ 3,088,386</b>	<b>\$ (9,120,230)</b>	<b>\$ 671,168</b>	<b>\$ (8,449,062)</b>
<b>General Revenues:</b>								
<b>Taxes:</b>								
Property Taxes Levied for General Purposes						2,816,320	-	2,816,320
Sales and Use Taxes						2,949,812	-	2,949,812
Business and Occupation Taxes						3,313,960	-	3,313,960
Excise Taxes						978,371	-	978,371
Grants and Contributions not Restricted to Specific Programs						360,532	-	360,532
Unrestricted Investment Earnings						72,726	128,293	201,019
Gain (loss) on Sale of Capital Assets						2,500	-	2,500
Miscellaneous						82,457	142,170	224,627
<b>Total General Revenues</b>						<b>10,576,678</b>	<b>270,463</b>	<b>10,847,141</b>
Change in Net Position						1,456,448	941,631	2,398,079
Net Position - Beginning						46,529,732	66,003,511	112,533,243
Net Position - Ending						<b>\$ 47,986,180</b>	<b>\$ 66,945,142</b>	<b>\$ 114,931,322</b>

The notes to the financial statements are an integral part of this statement



**CITY OF BATTLE GROUND**  
**Governmental Funds**  
**Balance Sheet**  
**December 31, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,576,003	\$ 5,094,748	\$ 8,670,751
Investments	591,266	842,414	1,433,680
Property Taxes Receivables	52,432	-	52,432
Utility Tax Receivable	156,080	-	156,080
Accounts Receivable	991,889	95,007	1,086,896
Interest Receivable	5,656	9,686	15,342
Municipal Court Receivable	228,153	-	228,153
Total Assets	<u>5,601,479</u>	<u>6,041,855</u>	<u>11,643,334</u>
<b>Liabilities</b>			
Accounts Payable	262,853	25,470	288,323
Due to Other Governmental Units	89	-	89
Other Accrued Liabilities	133,231	55,610	188,841
Custodial Deposits	206,187	-	206,187
Total Liabilities	<u>602,360</u>	<u>81,080</u>	<u>683,440</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue-property taxes	44,799	-	44,799
Unavailable revenue-municipal court	228,153	-	228,153
Grants received in advance	9,000	-	9,000
Total Deferred Inflows of Resources	<u>281,952</u>	<u>-</u>	<u>281,952</u>
<b>Fund Balances</b>			
Restricted for:			
Capital	-	5,488,961	5,488,961
Drug Investigation	-	60,291	60,291
Tourist Promotion	-	156,483	156,483
Committed to:			
Economic Stabilization	627,290	-	627,290
Revenue Stabilization	1,828,228	-	1,828,228
Assigned to:			
LEOFF 1	45,840	-	45,840
Parks	467,661	-	467,661
Insurance Reserve	3,674	-	3,674
Street	-	255,040	255,040
Unassigned	1,744,474	-	1,744,474
Total Fund Balances	<u>4,717,167</u>	<u>5,960,775</u>	<u>\$ 10,677,942</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 5,601,479</u>	<u>\$ 6,041,855</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (excludes internal service funds) 49,740,492

Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds (see note 2A) 1,370,708

Long-term liabilities that are not due and payable in the current period and are not reported in the funds (see note 2A) (14,534,936)

Net position of internal service funds - governmental activities (see note 2A) 731,974

Net position of governmental activities \$ 47,986,180

The notes to the financial statements are an integral part of this statement.



**CITY OF BATTLE GROUND**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2016**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property Taxes	\$ 2,819,856	\$ -	\$ 2,819,856
Sales and Use Taxes	2,949,812	-	2,949,812
Other Taxes	3,284,005	1,282,061	4,566,066
License and Permits	841,949	-	841,949
Intergovernmental	721,902	590,687	1,312,589
Charges for Services	1,489,453	1,536,818	3,026,271
Fines and Forfeits	260,696	-	260,696
Interest Earnings	27,649	42,056	69,705
Rents and Royalties	272,099	-	272,099
Contributions/Donations	9,500	118,417	127,917
Miscellaneous	76,014	13,340	89,354
Total Revenues	<u>12,752,935</u>	<u>3,583,379</u>	<u>16,336,314</u>
<b>Expenditures</b>			
Current			
General Government	2,667,389	24,825	2,692,214
Judicial	579,154	-	579,154
Security/Persons and Property	3,941,825	2,767	3,944,592
Physical Environment	2,296,398	-	2,296,398
Transportation	-	1,109,050	1,109,050
Economic Environment	876,787	-	876,787
Culture and Recreation	607,717	-	607,717
Capital Expenditures			
General Government	224,420	-	224,420
Security/Persons and Property	213,820	14,986	228,806
Transportation	-	238,490	238,490
Debt Service			
Principal Retirement	16,383	830,000	846,383
Interest/Fiscal Charges	1,069	481,000	482,069
Total Expenditures	<u>11,424,962</u>	<u>2,701,118</u>	<u>14,126,080</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,327,973	882,261	2,210,234
Other Financing Sources (Uses)			
Capital Lease Proceeds	270,594	-	270,594
Transfers In	2,000	1,752,897	1,754,897
Transfers Out	(560,691)	(1,307,454)	(1,868,145)
Total Other Financing Sources and Uses	<u>(288,097)</u>	<u>445,443</u>	<u>157,346</u>
Net Change in Fund Balance	1,039,876	1,327,704	2,367,580
Fund Balance at Beginning of Year	3,677,291	4,633,071	8,310,362
Fund Balance at End of Year	<u>\$ 4,717,167</u>	<u>\$ 5,960,775</u>	<u>\$ 10,677,942</u>

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balance - total governmental funds:	\$ 2,367,580
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	(1,994,280)
The net effect of various miscellaneous transactions involving capital assets ( i.e., sales, transfers, trade-ins, and donations) is to increase net position.	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	425,688
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	565,442
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	127,564
Internal service funds are used by management to charge the costs of vehicle and technology replacement to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(35,546)
Change in Net Position of Governmental Activities	<u>\$ 1,456,448</u>

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
General Fund  
For the Fiscal Year Ended December 31, 2016

	Budget Amounts		Actual Year-To- Date Thru 12/31/16	Variance Thru 12/31/16
	Original 2015-2016 Biennium	Final 2015-2016 Biennium		
<b>Revenues</b>				
Property Taxes	\$ 5,549,980	\$ 5,549,980	\$ 5,578,246	\$ 28,266
Sales and Use Taxes	5,451,690	5,451,690	5,503,110	51,420
Other Taxes	5,788,875	5,788,875	6,462,270	673,395
License and Permits	1,419,916	1,419,916	1,667,960	248,044
Intergovernmental	954,950	1,016,372	1,337,207	320,835
Charges for Services	3,105,688	3,105,688	3,048,218	(57,470)
Fines and Forfeits	560,975	560,975	523,428	(37,547)
Interest Earnings	22,700	22,700	29,074	6,374
Rents and Royalties	401,490	401,490	364,305	(37,185)
Miscellaneous	70,700	70,700	134,356	63,656
Total Revenues	23,326,964	23,388,386	24,648,174	1,259,788
<b>Expenditures</b>				
Current				
General Government	6,024,957	6,024,957	5,274,960	749,997
Judicial	1,321,685	1,330,685	1,166,877	163,808
Security/Persons and Property	7,968,627	7,985,463	7,820,797	164,666
Physical Environment	4,683,400	4,683,400	4,578,971	104,429
Economic Environment	1,821,070	1,821,070	1,706,536	114,534
Capitalized Expenditures	-	-	438,240	(438,240)
Principal Retirement	24,522	24,522	28,144	(3,622)
Interest/Fiscal Charges	496	496	1,503	(1,007)
Total Expenditures	21,844,757	21,870,593	21,016,028	854,565
Excess (Deficiency) of Revenues Over (under) Expenditures	1,482,207	1,517,793	3,632,146	2,114,353
<b>Other Financing Sources (Uses)</b>				
Capital Lease Proceeds	-	-	270,594	270,594
Transfers In	85,000	85,000	82,000	(3,000)
Transfers Out	(2,445,025)	(2,365,806)	(2,292,905)	72,901
Total Other Financing Sources and Uses	(2,360,025)	(2,280,806)	(1,940,311)	340,495
Net Change in Fund Balance	(877,818)	(763,013)	1,691,835	2,454,848
Fund Balance at Beginning of Year	1,880,867	1,880,867	1,880,867	-
Fund Balance at End of Year	\$ 1,003,049	\$ 1,117,854	\$ 3,572,702	\$ 2,454,848
Adjustment to generally accepted accounting principles (GAAP) basis:				
Parks Fund budgeted as separate fund			\$ 467,661	
Insurance Reserve Fund budgeted as separate fund			3,674	
LEOFF I Reserve Fund budgeted as separate fund			45,840	
Service Stabilization fund budgeted as separate fund			627,290	
Fund Balance GAAP basis:			\$ 4,717,167	

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
**Proprietary Funds**  
**Statement of Net Position**  
**December 31, 2016**

	Business-type Activities				Governmental Activities
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
<b>Assets</b>					
Current Assets					
Cash and Cash Equivalents	\$ 1,589,360	\$ 6,582,550	\$ 6,981,726	\$ 15,153,636	\$ 374,470
Investments	262,955	1,089,009	1,155,105	\$ 2,507,069	61,955
Receivables (net)					
Accounts	110,272	295,740	442,064	\$ 848,076	-
Interest	3,347	12,563	12,795	\$ 28,705	711
Total Current Assets	1,965,934	7,979,862	8,591,690	18,537,486	437,136
Noncurrent Assets					
Restricted Cash and Cash Equivalents	-	-	301,875	301,875	-
Property, Plant and Equipment (Net)	8,668,120	17,942,235	31,561,274	58,171,629	1,022,897
Total Noncurrent Assets	8,668,120	17,942,235	31,863,149	58,473,504	1,022,897
Total Assets	10,634,054	25,922,097	40,454,839	77,010,990	1,460,033
<b>Deferred Outflows of Resources</b>					
Deferred Outflows Related to Pensions	41,817	61,959	38,483	142,259	-
<b>Liabilities</b>					
Current Liabilities					
Accounts Payable	18,025	28,127	17,102	63,254	163
Accrued Interest Payable	-	12,925	85,895	98,820	5,585
Other Accrued Liabilities	7,846	16,100	6,625	30,571	-
Unearned Revenues	-	932	-	932	-
Compensated Absences	2,829	19,513	8,963	31,305	-
Lease Payable	-	-	-	-	160,247
Bonds, Notes and Loans Payable	-	124,967	158,261	283,228	-
Total Current Liabilities	28,700	202,564	276,846	508,110	165,995
Noncurrent Liabilities					
Lease Payable	-	-	-	-	242,167
Bonds, Notes and Loan Payable	-	2,577,081	6,534,135	9,111,216	-
Compensated Absences	16,067	30,586	25,000	71,653	-
Net Pension Liability	238,823	353,858	219,788	812,469	-
Total Noncurrent Liabilities	254,890	2,961,525	6,778,923	9,995,338	242,167
Total Liabilities	283,590	3,164,089	7,055,769	10,503,448	408,162
<b>Deferred Inflows of Resources</b>					
Deferred Inflows Related to Pensions	7,218	10,695	6,643	24,556	-
<b>Net Position</b>					
Net Investment in Capital Assets	8,668,120	15,240,187	24,868,878	48,777,185	620,483
Restricted for Debt Service	-	-	301,875	301,875	-
Unrestricted	1,716,943	7,569,085	8,260,157	17,546,185	431,388
Total Net Position	\$ 10,385,063	\$ 22,809,272	\$ 33,430,910	\$ 66,625,245	\$ 1,051,871
Adjustment to report cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time (see note 2C)				319,897	
Net Position of business-type activities				\$ 66,945,142	

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Fiscal Year Ended December 31, 2016**

	Business-type Activities				Governmental Activities
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenues</b>					
Charge for Services	\$ 1,035,170	\$ 2,503,684	\$ 3,565,701	\$ 7,104,555	\$ 175,772
Miscellaneous	438	3,123	92,416	95,977	-
Total Operating Revenues	<u>1,035,608</u>	<u>2,506,807</u>	<u>3,658,117</u>	<u>7,200,532</u>	<u>175,772</u>
<b>Operating Expenses</b>					
Personnel Services	406,082	532,453	337,405	1,275,940	-
Equipment and Supplies	16,444	467,810	20,523	504,777	72,821
Professional Services	34,333	60,122	34,518	128,973	-
Utilities		131,562	81,882	213,444	-
Repairs and Maintenance	13,367	28,499	87,366	129,232	-
Taxes	19,632	136,254	71,188	227,074	-
Intergovernmental services	-	-	2,184,058	2,184,058	-
Insurance claims and expenses	8,232	19,216	38,199	65,647	-
Allocated expenses	315,476	339,174	392,406	1,047,056	-
Other	64,983	103,035	71,966	239,984	-
Depreciation	280,199	784,131	1,664,617	2,728,947	198,213
Total Operating Expenses	<u>1,158,748</u>	<u>2,602,256</u>	<u>4,984,128</u>	<u>8,745,132</u>	<u>271,034</u>
Operating Income (loss)	(123,140)	(95,449)	(1,326,011)	(1,544,600)	(95,262)
<b>Nonoperating Revenues (Expenses)</b>					
Interest Earnings	14,078	55,031	59,184	128,293	3,021
State and Federal Grants	38,529	-	-	38,529	-
Interest and Fiscal Charges	-	(89,304)	(197,634)	(286,938)	(12,860)
Gain (loss) on Sale of Capital Assets	-	-	-	-	2,500
Total Nonoperating Revenues (Expenses)	<u>52,607</u>	<u>(34,273)</u>	<u>(138,450)</u>	<u>(120,116)</u>	<u>(7,339)</u>
Income (Loss) before Contributions , Transfers, and Special Items	(70,533)	(129,722)	(1,464,461)	(1,664,716)	(102,601)
Capital Contributions	177,742	729,809	1,652,603	2,560,154	-
Transfers In	-	-	-	-	113,248
Change in Net Position	<u>107,209</u>	<u>600,087</u>	<u>188,142</u>	<u>895,438</u>	<u>10,647</u>
Total Net Position at Beginning of Year	10,277,854	22,209,185	33,242,768		1,041,224
Total Net Position at End of Year	<u>\$ 10,385,063</u>	<u>\$ 22,809,272</u>	<u>\$ 33,430,910</u>		<u>\$ 1,051,871</u>
Adjustment for the net effect of the current year activity between the internal service funds and the enterprise funds				46,193	
Changes in net position of business-type activities				<u>\$ 941,631</u>	

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
Proprietary Funds  
Statement of Cash Flows  
For the Fiscal Year Ended December 31, 2016

	Business-type Activities			Governmental Activities	
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>					
Cash received from Customers	\$ 1,019,784	\$ 2,531,546	\$ 3,635,680	\$ 7,187,011	\$ -
Receipts from vehicle interfund charges	-	-	-	-	81,598
Receipts from technology interfund charges	-	-	-	-	94,174
Cash payments to Suppliers	(146,388)	(930,739)	(2,586,222)	(3,663,349)	(72,821)
Cash payments to Employees	(379,991)	(514,484)	(344,648)	(1,239,123)	-
Cash payments for Interfund Services Received	(333,927)	(356,044)	(431,407)	(1,121,378)	-
Net Cash Provided by Operating Activities	159,477	730,279	273,403	1,163,160	102,951
<b>Cash Flows from Noncapital Financing Activities:</b>					
Proceeds from Operating Grants	38,529	-	-	38,529	-
Net Cash Provided (Used) by Noncapital Financing Activities	38,529	-	-	38,529	-
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Acquisition and Construction of Capital Assets	(148,725)	(241,365)	(10,622)	(400,712)	(226,064)
Proceeds from Other Financing (Transfers)	-	-	-	-	113,248
Proceeds from Sale of Capital Assets	-	-	-	-	2,500
Principal Paid on Capital Lease	-	-	-	-	(171,443)
Interest Paid on Capital Lease	-	-	-	-	(15,180)
Principal Paid on Current Debt	-	(72,361)	(155,202)	(227,563)	-
Interest Paid on Revenue Bonds and Other Long Term Debt	-	(136,330)	(199,275)	(335,605)	-
Capital Contributed-Paid in cash	96,997	567,930	1,562,805	2,227,732	-
Net Cash Provided for Capital and Related Financing Activities	(51,728)	117,874	1,197,707	1,263,853	(296,939)
<b>Cash Flows from Investing Activities:</b>					
Interest on Investments	14,171	54,351	57,947	126,469	3,099
Proceeds or Purchase of Investment Securities	424,436	1,529,203	1,530,422	3,484,061	88,858
Net Cash Used by Investing Activities	438,607	1,583,554	1,588,369	3,610,531	91,957
Net Increase (Decrease) in Cash and Cash Equivalents	584,886	2,431,708	3,059,480	6,076,073	(102,031)
Cash and Cash Equivalents at Beginning of Year	1,004,474	4,150,842	4,224,121	9,379,437	476,501
Cash and Cash Equivalents at End of Year	\$ 1,589,360	\$ 6,582,550	\$ 7,283,601	\$ 15,455,510	\$ 374,470

continued on next page

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended December 31, 2016**

	Business-type Activities				Governmental Activities
	Storm Drainage	Water	Sewer	Total Enterprise Funds	Internal Service Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:</b>					
Net Operating Income (Loss)	\$ (123,140)	\$ (95,449)	\$ (1,326,011)	\$ (1,544,600)	\$ (95,262)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operations:					
Depreciation Expense	280,199	784,131	1,664,617	2,728,947	198,213
Pension Expense (GASB 68)	24,697	10,275	1,605	36,577	-
(Increase) Decrease in Receivables	(15,825)	24,739	(22,437)	(13,522)	-
Increase (Decrease) in Current Payables	(7,848)	(1,087)	(35,523)	(44,458)	-
Increase (Decrease) in Accrued Employee Benefits	1,394	7,670	(8,848)	216	-
Total Adjustments	282,617	825,728	1,599,414	2,707,760	198,213
Net Cash Provided by Operating Activities	<u>\$ 159,477</u>	<u>\$ 730,279</u>	<u>\$ 273,403</u>	<u>\$ 1,163,160</u>	<u>\$ 102,951</u>
Noncash Investing, Financing and Capital Activities					
Capital Assets Contributed	80,745	161,879	89,798	332,422	
Net Change in Fair Value of Investments	872	6,240	4,634	11,745	266

The notes to the financial statements are an integral part of this statement

**CITY OF BATTLE GROUND**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Battle Ground, Washington (city) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

**A. Reporting Entity**

The City of Battle Ground incorporated in June 1951. It operates under the laws of the State of Washington applicable to noncharter code cities with a council-manager form of government. City council is composed of seven elected members with one selected to serve as the mayor. The city is a general-purpose government and provides public safety, street construction and maintenance, parks and recreation, judicial administration, planning, economic development, and general administrative services. The city owns and operates water, stormwater, and sewer utilities. The city contracts for fire services.

As required by generally accepted accounting principles, the financial statements present the City of Battle Ground as a primary government. The city does not have any component units.

**B. Basis of Presentation - Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchases, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's utility functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund financial statements are separate financial statements provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



The city reports the following major governmental fund:

The **general** (or current expense) **fund** is the city's primary operating fund. It accounts for financial resources of the general government except those required to be accounted for in another fund.

The city reports the following major enterprise funds:

The **storm drainage fund** accounts for the activities of the city's storm water operations and capital facilities. The fund is responsible for the maintenance and operation of the city's storm drainage facilities, which consist of ponds, swales, roadside ditches, and pipe and conveyance systems. Utility operations are self-supported through user fees.

The **water fund** accounts for the city's water utility operations. Activity of the municipal water system includes production, treatment, storage, and distribution of domestic water. Utility operations are self-supported through user fees. System development charges assessed on new development are expended to build and expand water capacity.

The **sewer fund** accounts for the city's sewer utility operations. Sewer operations provide safe and clean collection and disposal of sewage. Utility operations are self-supported through user fees. System development charges assessed on new development are expended to build and expand sewer capacity.

Additionally, the city reports the following fund types:

**Debt service funds** account for and report financial resources that are restricted, committed, or assigned to be used for payment of principal and interest on long-term debt.

**Special revenue funds** account for and report the proceeds of specific revenue sources that are restricted or committed to finance specific activities or functions, as required by law or administrative regulations.

**Capital project funds** account for and report the resources that are restricted, committed, or assigned to be used for acquisition or construction of capital projects or other capital assets.

**Internal service funds** account for and report vehicle and technology services provided to other city departments on a cost reimbursement basis.

C. Measurement Focus, Basis of Accounting

1. Government-wide and Governmental Funds

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current

period. For this purpose, the city considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the city.

2. Proprietary Funds

Proprietary fund statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations of the proprietary fund. Principal operating revenues of the funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary information

1. Scope of Budget

The City of Battle Ground budgets its funds in accordance with the Revised Code of Washington (RCW) Chapter 35A.34. In compliance with the code, budgets are established for all funds. Budgets established for proprietary funds are "management budgets" and are not required to be shown in this report.

The biennial budget is proposed by the city manager and adopted by the city council with legal budgetary control at the fund level. Expenditures and other financing uses may not exceed budgeted appropriations at these levels. Any unexpended appropriation balances lapse at the end of the biennium.

Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

The city prepares all biennial budgets on the modified accrual basis, which conforms to generally accepted accounting principles (GAAP). State law establishes the budget process and the time limits under which a budget must be developed.

2. Amending the Budget

The city manager is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of a fund or that affect the number of authorized employee positions, salary ranges or other conditions of employment must be approved by the city council. When the council determines that it is in the best interest of the city to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by one more than the majority.

The budget amounts shown in the financial statements are the final authorized amounts as revised during the biennium. The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the biennial budget.

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash and Cash Equivalents - See Note 3

For the purposes of the *Statements of Net Position* and cash flows, the city considers all highly liquid investments with a maturity of three months or less from date of acquisition to be cash equivalents. All amounts held in the Local Government Investment Pool (LGIP) and Clark County Investment Pool (CCIP) are considered to be cash equivalents. The interest on these investments is prorated to the various funds. This policy covers all funds operated by the city.

2. Investments - See Note 3

Investments purchased with an original maturity of more than three months are classified as investments. Investments are reported at fair value on quoted market prices for securities. Change in fair value is reported in the *Statement of Revenues, Expenses and Changes in Net Position* as investment earnings.

State statutes authorize cities to invest in obligations of the U.S. Treasury, commercial paper, banker's acceptances, certain other government agency obligations, and the state and county treasurer's investment pool. The city's investment policy does not further limit investment choices. City policy dictates that all investment instruments, other than non-negotiable certificates of deposit and monies placed with the Washington State Local Government Investment Pool and similar money market accounts, be transacted on the delivery versus payment basis.

3. Receivables – See Note 12

Taxes receivable consists of property taxes and related interest and penalties (See note 9). Accrued interest receivable consists of amounts earned on investments and contracts at the end of the year.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Uncollectible amounts are considered immaterial and the direct write-off method is used.

4. Amounts Due to and from Other Funds and Governments, Interfund Loans and Advances Receivable – See Note 5

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund loans receivable/payable" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

5. Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased. Inventories in the proprietary funds are not material and not recorded. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Component of Net Position

These resources are set aside for specific uses and/or restricted by enabling legislation or externally imposed constraints. Restricted assets for governmental activities are \$6,159,520 and business-type activities are \$301,875. Restricted amounts are held for debt service, construction and/or acquisition of capital assets, and other specific operating purposes. Further detail is displayed on the face of the *Statement of Net Position*.

7. Capital Assets – See Note 4

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of \$10,000 (\$5,000 for assets acquired with federal financial assistance) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized. Major outlays for capital assets and improvements are recorded in *Construction in Progress* as they are constructed and capitalized upon completion. Interest incurred during the construction phase of capital assets of business-type activities is included in the capitalized value of the constructed assets.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Asset Category	Useful Life (years)
Buildings	40
Infrastructure	20-40
Intangible Assets	20-40
Utility Improvements	40
Public Work Equipment	8
Vehicles	5-8
Office and Electronic Equipment	5-10

8. Deferred Outflows/Inflows of Resources

In addition to assets, the *Statement of Financial Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) , so will not be recognized as an outflow of resources until then.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This section represents an acquisition of net position that applies to a future period(s) ,so will not be recognized as an inflow of resources (revenue) until that time.

9. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Unless otherwise provided by collective bargaining agreement or contract, vacation pay, which may be accumulated up to 360 hours, is payable upon resignation, retirement, or death. Unless provided by an employment agreement, terminations for any reason other than retirement

shall not result in payment for any unused sick leave. Unused sick leave at retirement will be paid based on one-third of the total accumulated sick leave.

Compensated absences reported for governmental activities are generally liquidated by the general fund and street fund. In proprietary funds, compensated absences are recorded as an expense and liability in the fund that will pay for them. As of December 31, 2016, the city has compensated absences payable amounted to \$518,139, with \$415,181 recorded in governmental activities and \$102,958 recorded in business-type activities.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Other Accrued Liabilities

These accounts consist of accrued employee wages and benefits.

12. Long-Term Obligations - See Note 7

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Under GASB 65, bond issue costs are expenses as incurred. Long-term obligations used to finance proprietary fund operations and payable from revenue of the proprietary funds are accounted for in the applicable fund.

13. Unearned Revenues

This includes unspent grant proceeds.

14. Custodial Deposits

Custodial deposits represent facility rental and developer deposits.

15. Fund Balance Classification

Assets in excess of liabilities are reported as fund balances, and are segregated into separate classifications indicating the extent to which the city is bound to honor constraints on the specific purposes for which those funds can be spent.

Nonspendable	Amounts that cannot be spent because they are either not in spendable form or are legally required to be maintained intact
Restricted	Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments, including the state and federal government.

Committed	Amounts that can be used only for specific purposes determined by a formal action of the city council (the city's highest level of decision-making authority). Commitments may be established, modified, or rescinded through resolutions approved by the city council.
Assigned	Assigned fund balance includes resources intended to be used by the city for specific purposes, but are neither restricted nor committed. The city has not established a policy regarding the assignment of funds, so this category of fund balance represents the residual amounts not otherwise reported as nonspendable, restricted, or committed.
Unassigned	Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance.

*Flow assumption:* When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the city's policy to use restricted resources first. When expenditure is incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the city's policy to spend committed resources first, then assigned, and unassigned, in that order. However, prior to the commencement of any project, the flow assumptions are reviewed to ensure that the proper resources are being used.

16. General Fund Revenue Stabilization

City council adopted Resolution 08-08 that targets an estimated ending fund balance of 15% of estimated annual revenues for the general fund. In the event that the fund balance drops below the established minimum level, the city's governing body will develop a plan to replenish the fund balance to the established minimum level as economic conditions allow. This arrangement is disclosed as committed general fund balance. Estimated general fund revenues were \$12,188,187 and the ending fund balance meets the 15% requirement.

17. Stabilization Fund

City council adopted Resolution 12-08 which established an economic stabilization fund. The purpose of the fund is to maintain sufficient resources to provided continuing levels of service in years where projected revenue collection will fall below average. The targeted fund balance is five percent of the city's total governmental budgeted revenues for the current year. One-time revenues are placed in the fund and city council determines when to expend funds. This arrangement is disclosed as committed fund balance in the general fund balance sheet. The economic stabilization fund balance is \$627,290 at December 31, 2016 and meets the five percent target.

18. Use of Estimates

These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates and assumptions.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes reconciliation between fund balances - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. One element of the reconciliation is "other long-term assets not available to pay for current-period expenditures and, therefore are deferred in the funds." The details of this difference are as follows:

Earned but unavailable revenues	\$ 272,952
Net pension asset	453,785
Deferred outflows related to pensions	729,472
Deferred inflows related to pensions	(85,501)
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 1,370,708</u>

Another element of that reconciliation explains, "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$ 9,755,000
Plus: Issuance premium (to be amortized as interest expense)	101,108
Accrued interest payable	40,454
Due to other governments	700,000
Capital lease payable	270,594
Net OPEB obligation	617,321
Net pension obligation	2,552,415
Compensated absences	415,181
Impact fee credits	82,863
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 14,534,936</u>

Another element of that reconciliation explains that "internal service funds related to governmental activities." The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. The details of this difference are as follows:

Net position of the internal service funds	\$ 1,051,871
Less: Internal payable representing charges in excess of cost to business-type activities – prior years	(273,704)
Less: Internal payable representing charges in excess of cost to business-type activities – current year	(46,193)
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 731,974</u>

B. Explanation of certain differences between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities

The governmental fund *Statement of Revenues, Expenditures and Changes in Fund Balance* includes reconciliation between net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.



One element of that reconciliation explains that “governmental funds report capital outlays as expenditures.” However, in the *Statement of Activities* the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital Outlay	\$ 691,719
Depreciation expense	(2,685,999)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (1,994,280)</u>

Another element of that reconciliation states, “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this difference are as follows:

Contribution from developers	\$ 391,720
Unearned revenue	45,182
Municipal court revenue - unavailable	(7,676)
Tax revenues - unavailable	(3,538)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 425,688</u>

Another element of that reconciliation states that the “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of these differences are as follows:

Principal repayments:	
General obligation debt	\$ 730,000
Governmental loans	100,000
Capital leases	(264,558)
Net adjustment to increase net changes in fund balance-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 565,442</u>

Another element of that reconciliation states, “some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” These result from year-to-year changes in amounts on the Statement of Net Position. The details of this difference are as follows:

Compensated absences	\$ 28,850
Net OPEB obligation	(106,757)
Net pension liability	(309,348)
Net pension asset	(347,664)
Deferred outflow of resources – related to pensions	339,583
Deferred inflow of resources – related to pensions	505,387
Amortization of bond premium costs	15,729
Accrued interest	1,784
Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 127,564</u>



Another element of the reconciliation states "internal service funds used by management to charge the costs of vehicle and technology replacement to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities." The details of the -\$35,546 difference are as follows:

Change in net position of the internal service funds	\$ 10,647
Less: gain from charges to business-type activities	(46,193)
Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (35,546)</u>

C. Explanation of certain differences between the proprietary fund statement of net position and the government-wide statement of net position

The proprietary fund statement of net position includes reconciliation between net position – total enterprise funds and net position of business-type activities as reported in the government-wide statement of net position. The description of the sole element of that reconciliation is "adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time." The details of the \$319,897 difference are as follows:

Internal receivable representing charges in excess of cost to business-type activities – prior years	\$ 273,704
Internal receivable representing charges in excess of cost to business-type activities – current year	46,193
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	<u>\$ 319,897</u>

### NOTE 3 – DEPOSITS AND INVESTMENTS

Below is a reconciliation of cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements. Deposits and investments have no foreign currency risk.

Notes	
Deposits	
Cash in Bank	\$ 972,032
Petty Cash	5,250
Reserve Account	301,875
Local Government Investment Pool	217,199
Clark County Investment Pool	23,004,376
Investments	
US Government Agencies	4,002,704
	<u>\$ 28,503,436</u>
Financial Statements	
Cash and cash equivalents	\$ 24,198,857
Restricted cash and cash equivalents	301,875
Investments (US Government Agencies)	4,002,704
	<u>\$ 28,503,436</u>

A. Deposits

The city's deposits of \$972,032 in financial institutions at December 31, 2016 are entirely insured. The Federal Depository Insurance Commission (FDIC) insures the city's deposits up to \$250,000 and the

Washington Public Deposit Protection Commission (PDPC) insures amounts over \$250,000. Cash on hand, demand deposits, and short-term investments with original maturity of three months or less are classified as cash and cash equivalents.

**B. Investments**

All city investments are eligible securities as authorized by RCW 35.39.030. The city measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles as follow:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other quoted prices that are not observable
- Level 3: Unobservable inputs for an asset or liability

The Local Government Investment Pool (LGIP), created by the Washington State Legislature in 1986, is administered by the state treasurer under Chapter 43.250 RCW. The LGIP is managed in a manner generally consistent with the Securities and Exchange Commission (SEC) regulated Rule 2a-7 money market funds. The state finance committee adopts and administers appropriate rules relating to the LGIP. The current price per share for purposes of distribution, redemption and repurchase is computed by the amortized cost method. The portfolio is managed to maintain a stable net asset value at \$1.00. There is a minimum transaction size of \$5,000 for deposits and withdrawals and notification is required the day prior to a \$10 million deposit or withdrawal. Additional information on the LGIP is at [www.tre.wa.gov](http://www.tre.wa.gov). The LGIP is reported on the balance sheet as cash and cash equivalents.

The Clark County Investment Pool (CCIP) is not SEC registered. Authority to manage the investment pool is derived from RCW 36.29.022. Regulatory oversight is provided by the finance committee which, by statute, consists of the county treasurer, the county auditor, and the chair of the Board of County Commissioners. The fair value of the position in the pool is the same as the value of the pool shares. Additional information on the CCIP is at [www.clark.wa.gov/treasurer](http://www.clark.wa.gov/treasurer). The CCIP is reported on the balance sheet as cash and cash equivalents.

Custodial credit risk is the risk that in the event of a failure of the counterparty to an investment transaction the city would not be able to recover the value of the investment or collateral securities. All city deposits are covered by depository insurance. Investments in external investment pools are not exposed to custodial credit risk. All investment security transactions are conducted on a delivery-versus-payment (DVP) basis. A financial institution designated by the finance director as primary agent to serve as a custodian acting on the city's behalf holds securities purchased by the city. All transactions are evidenced by safekeeping receipts.

Credit rate risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit risk, state law does not allow general governments to invest in corporate equities. All debt securities in the city's investment portfolio are obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

Concentration of credit risk - Safety of the principal is the foremost objective of the city's investment program. All investments securities of the city are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The city's policy requires that the portfolio be structured to diversify investments to reduce the risk of loss by over-concentration of assets in a specific maturity, a specific issuer, or a specific type of security. The city's investment policy states that no more than 90%

of the total portfolio may be invested in U.S. treasuries or agencies. The state and local investment pools are not limited.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the city uses the segmented time distribution format, but are not required to include the credit ratings of federal securities at December 31, 2016. The city has investments in government sponsored agencies and pools. Those securities and their percentage of the city's investment portfolio are disclosed below:

Issuer	Fair Value	Amortized Value	Maturity	Average Maturity in	% of Portfolio
Financing Corporation (FICO)	\$ 1,969,129		12/27/18	2.00	7%
Federal National Mortgage Assoc	1,037,949		6/1/2017	0.50	4%
Federal Home Loan Mortgage Corp	995,626		7/30/18	1.58	4%
Local Government Investment Pool		217,199	-	0.00	1%
Clark County Pool	23,306,251		-	0.00	84%
	<u>\$ 27,308,955</u>	<u>\$ 217,199</u>			100%
Weighted average maturity of investments				0.20	

Investment Type (Issuer)	Fair Value		Amortized Value	Investment Maturities (in Years)	
	12/31/16	Quoted Price (Level 1)		Less than 1	1-2
Financing Corporation	\$ 1,969,129	\$ 1,969,129			\$ 1,969,129
Federal National Mortgage Assoc	1,037,949	1,037,949		1,037,949	
Federal Home Loan Mortgage Corp	995,626	995,626			995,626
Local Government Investment Pool	217,199		217,199	217,199	
Clark County Pool	23,306,251	23,306,251		23,306,251	
	<u>\$ 27,526,154</u>	<u>\$ 27,308,955</u>	<u>\$ 217,199</u>	<u>\$ 24,561,399</u>	<u>\$ 2,964,755</u>
Maximum Investment by Maturity	100%			89%	11%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the city manages exposure to declines in fair values from interest rates by limiting the weighted average maturity of its investment portfolio to maturities that will fulfill the cash flow needs of the city. The securities in the portfolio are structured in a manner that ensures sufficient cash is available to meet anticipated cash flow needs based on historical information.

The city's investment policy states the maximum average maturity of the city's portfolio will not exceed two years. However, the policy includes the state and local government investment pools as investments for calculating the maximum average maturity of investments.

#### NOTE 4 - CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION

A. Capital assets activity for the year ended December 31, 2016 is as follows:

	Beginning Balance 01/01/16	Increases	Decreases	Ending Balance 12/31/16
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 15,996,830	\$ -	\$ -	\$ 15,996,830
Construction in progress	333,601	238,490	168,914	403,177
Total capital assets, not being depreciated	16,330,431	238,490	168,914	16,400,007
Capital assets, being depreciated/depleted:				
Buildings	15,047,394	61,680	14,628	15,094,446
Machinery & Equipment	4,336,432	617,611	240,696	4,713,347
Infrastructure	78,267,782	560,634	20,074	78,808,342
Improvements other than buildings	1,000,801	-	-	1,000,801
Total capital assets being depreciated	98,652,409	1,239,925	275,398	99,616,936
Less accumulated depreciation for:				
Buildings	4,403,280	388,155	14,628	4,776,807
Machinery & Equipment	3,307,315	282,801	240,696	3,349,420
Infrastructure	54,601,057	2,163,215	20,074	56,744,198
Improvements other than buildings	333,088	50,041	-	383,129
Total accumulated depreciation	62,644,740	2,884,212	275,398	65,253,554
Total capital assets, being depreciated, net	36,007,669	(1,644,287)	-	34,363,382
<b>Governmental activities capital assets, net</b>	<b>\$ 52,338,100</b>	<b>\$ (1,405,797)</b>	<b>\$ 168,914</b>	<b>\$ 50,763,389</b>

	Beginning Balance 01/01/16	Increases	Decreases	Ending Balance 12/31/16
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 2,982,132	\$ -	\$ -	\$ 2,982,132
Construction in progress	207,966	118,551	48,669	277,848
Total capital assets, not being depreciated	3,190,098	118,551	48,669	3,259,980
Capital assets, being depreciated/depleted:				
Buildings	1,357,535	-	-	1,357,535
Machinery and equipment	390,351	40,796	-	431,147
Infrastructure	61,565,028	622,456	-	62,187,484
Improvements other than buildings	32,884	-	-	32,884
Intangible assets	27,250,748	-	-	27,250,748
Total capital assets being depreciated	90,596,546	663,252	0	91,259,798
Less accumulated depreciation for:				
Buildings	368,369	33,938	-	402,307
Machinery and equipment	322,627	21,989	-	344,616
Infrastructure	21,417,468	1,581,346	-	22,998,814
Improvements other than buildings	1,644	1,644	-	3,288
Intangible assets	11,509,094	1,090,030	-	12,599,124
Total accumulated depreciation	33,619,202	2,728,947	0	36,348,149
Total capital assets, being depreciated, net	56,977,344	(2,065,695)	0	54,911,649
<b>Business-type activities capital assets, net</b>	<b>\$ 60,167,442</b>	<b>\$ (1,947,144)</b>	<b>\$ 48,669</b>	<b>\$ 58,171,629</b>

Depreciation expense charged to programs of the primary government is as follows:

<b>Governmental Activities:</b>	
General Government	\$ 228,701
Public Safety	247,638
Physical Environment	64,956
Transportation	1,908,634
Culture and Recreation	434,283
Total Depreciation - Governmental Activities	\$ 2,884,212

<b>Business-type Activities:</b>	
Storm Drainage	\$ 280,199
Water	784,131
Sewer	1,664,617
Total Depreciation -Business-Type Activities	\$ 2,728,947

B. Intangible asset

The city recognizes its future sewer treatment capacity rights in the Discovery Clean Water Alliance's Salmon Creek Treatment Plan in compliance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The city recorded an intangible asset of \$27,250,748 upon completion of Phases III and IV of the Salmon Creek Wastewater Treatment Facility. Future capacity rights are amortized over 25 years. See Note 13.

**NOTE 5 – INTERFUND TRANSACTIONS**

Loans between funds are classified as interfund loans receivable or payable or as advances to and from other funds and are shown in the Governmental Funds Balance Sheet and Proprietary Funds Statement of Net Position. Within the city, one fund may borrow from another when specifically authorized by council resolution. No interfund receivables or payables existed at year-end.

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment and are classified with "other financing sources or uses" in the fund statements. Interfund transfers are used to move receipts for debt service from the fund collecting the receipts to a debt service fund as debt service payments and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The interfund transfer activity for the year is as follows:

Transfer To	Transfer From					
	General Fund		Special Revenue Funds	Capital Funds	Total Transfers	
	General Fund		2,000		2,000	
	Special Revenue Funds		458,337		458,337	
	Debt Service Fund		34,219	1,158,364	1,192,583	
	Capital Projects Fund		34,803	67,174	101,977	
	Internal Service Funds		33,332	79,916	113,248	
	Total		\$ 560,691	\$ 2,000	\$ 1,305,454	\$ 1,868,145

**NOTE 6 – LEASES**

A. Capital Leases

The city entered into lease agreements as lessee for financing the acquisition of public safety vehicles and equipment and information technology equipment for general government use. Vehicles are also financed for business activity use. These lease agreements qualify as capital leases for accounting purposes and are recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset	Governmental Activities
Fire engine	\$ 488,598
Police vehicles	346,471
Work crew van	31,842
Utility vehicles	65,147
Phone servers	113,343
Public safety radio equipment	213,820
IT storage area network	46,806
Less: accumulated depreciation	(417,019)
Total	<u>\$ 889,008</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2016, were as follows:

Year Ending December 31	Governmental Activities
2017	229,722
2018	229,722
2019	138,258
2020	58,343
2021	58,342
Total Minimum Lease Payments	714,387
Less: Interest	(41,379)
Present Value of Minimum Lease Payments	<u>\$ 673,008</u>

B. Operating Leases

Operating lease obligations are for business machines under contractual agreements. The cost in 2016 for operating leases was \$10,267. The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2016:

2017	15,924
2018	11,270
2019	8,383
2020	8,383
2021	8,617
Total	<u>\$ 52,577</u>

**NOTE 7 – LONG-TERM LIABILITIES**

A. General Obligation Bonds

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of



the city. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by city council, and financed from general revenues.

The city had \$9,755,000 in outstanding general obligation bonds as of December 31, 2016.

Name of Issue	Governmental Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2016
2010 LTGO Bonds	Acquisition of City Hall	3,045,000	6/11/2010	12/1/2022	3.0%-4.0%	1,560,000
2010A LTGO Bonds	Road Improvements	575,000	12/8/2010	12/31/2018	3.0%-3.5%	250,000
2010B LTGO Bonds	Road Improvements	4,280,000	12/8/2010	12/1/2030	6.25%-7.0%	4,280,000
2011 LTGO Bonds	Park Facilities	5,265,000	11/16/2011	6/1/2026	2.0%-3.3%	3,665,000
Total LTGO Bonds		<u>\$ 13,165,000</u>				<u>\$ 9,755,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

LTGO - Governmental Activities			
	Principal	Interest	Total Requirements
2017	750,000	455,176	1,205,176
2018	750,000	429,726	1,179,726
2019	930,000	405,726	1,335,726
2020	940,000	367,181	1,307,181
2021	960,000	327,475	1,287,475
2022-2026	3,795,000	1,067,722	4,862,722
2027-2030	1,630,000	290,500	1,920,500
	<u>\$ 9,755,000</u>	<u>\$ 3,343,505</u>	<u>\$ 13,098,505</u>

#### B. Government Loans

The city receives government loans to finance construction of capital projects in the business-type activity funds and to finance street improvements and the purchase of capital assets into purchase capital assets. Government loans outstanding at year-end are as follows:

Name of Issue	Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2016
2000 PWTF Loan	Business-type Sewer Lines	1,400,000	5/30/2000	6/1/2020	1.0%	215,994
2003 PWTF Loan	Governmental West Main St	2,000,000	6/30/2003	6/1/2023	0.5%	700,000
		<u>\$ 3,400,000</u>				<u>\$ 915,994</u>

Public Works Trust Fund (PWTF) loan debt service requirements to maturity are as follows:



	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2017	100,000	3,500	103,500	53,998	2,160	56,158
2018	100,000	3,000	103,000	53,998	1,620	55,618
2019	100,000	2,500	102,500	53,999	1,080	55,079
2020	100,000	2,000	102,000	53,999	540	54,539
2021	100,000	1,500	101,500			
2022-2023	200,000	1,500	201,500			
	<u>\$ 700,000</u>	<u>\$ 14,000</u>	<u>\$ 714,000</u>	<u>\$ 215,994</u>	<u>\$ 5,400</u>	<u>\$ 221,394</u>

C. Revenue Bonds

The city also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the city council and financed from dedicated revenues. Water and/or sewer revenue bonds are issued to finance capital projects. Restricted assets in the sewer fund contain an amount equal to the sum of one annual installment of the bond as required by bond indentures.

Revenue bonds outstanding at year-end are as follows:

Name of Issue	Purpose	Amount Issued	Issue Date	Maturity Date	Interest Rate	Outstanding 12/31/2016
2012 Revenue Bonds	Sewer Facility	6,909,000	1/25/2012	1/25/2052	3.00%	6,476,402
2015 Revenue Bonds	Water Meters	2,774,409	5/7/2015	5/7/2030	3.26%	2,702,048
		<u>\$ 9,683,409</u>				<u>\$ 9,178,450</u>

Annual debt service requirements to maturity for these bonds are as follows:

2012 Sewer Revenue Bonds			
	Principal	Interest	Total Requirements
2017	104,262	193,516	297,778
2018	107,413	190,365	297,778
2019	110,660	187,118	297,778
2020	114,005	183,773	297,778
2021	117,450	180,328	297,778
2022-2026	642,697	846,193	1,488,890
2027-2031	745,876	743,014	1,488,890
2032-2036	865,619	623,271	1,488,890
2037-2041	1,004,586	484,304	1,488,890
2042-2046	1,165,863	323,027	1,488,890
2017-2051	1,353,032	135,858	1,488,890
2052	144,939	2,174	147,113
	<u>\$ 6,476,402</u>	<u>\$ 4,092,940</u>	<u>\$ 10,569,342</u>

2015 Water Revenue Bonds			
	Principal	Total Interest	Requirements
2017	124,967	86,593	211,560
2018	134,978	82,398	217,376
2019	145,483	77,871	223,354
2020	156,503	72,995	229,498
2021	168,057	67,753	235,810
2022-2026	1,033,893	246,063	1,279,956
2027-2030	938,166	58,958	997,124
	<u>\$ 2,702,048</u>	<u>\$ 692,630</u>	<u>\$ 3,394,678</u>

D. Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. As of December 31, 2016 the city had no arbitrage excess earnings liability on any of the city's bond issues.

E. Developer Fee Credits

Impact fees and system development charges (SDC) are levied at the time of permit issuance. The developer may be entitled to a nonrefundable "credit" against the applicable fee component for the fair market value of appropriate dedications of land, new construction, or system improvements. If the amount of the "credit" calculated is greater than the amount of the fee or charge due, the developer may apply the excess "credit" toward impact fees or SDCs assessed on other developments within the same service area. Impact fee credits are disclosed as a governmental activity and SDC credits as business-type activities in the government-wide financial statements.

Impact Fee Credits	At 12/31/15	Additions	Applied	At 12/31/16
Traffic Impact Fees	\$ 82,279	\$ 106,259	\$ (105,675)	\$ 82,863
Park Impact Fees	45,766		(45,766)	-
Total Impact Fee Credits	<u>\$ 128,045</u>	<u>\$ 106,259</u>	<u>\$ (151,441)</u>	<u>\$ 82,863</u>

System Development Charge Credits	At 12/31/15	Additions	Applied	At 12/31/16
Water SDC Credits	\$ 932	\$ -	\$ -	\$ 932
Total credits	<u>\$ 932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 932</u>

F. Changes in Long-Term Liabilities

Long-term liability activity of the city for the year ended December 31, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b><u>Governmental Activities</u></b>					
General obligation bonds	\$ 10,485,000	\$ -	\$ (730,000)	\$ 9,755,000	\$ 750,000
Less deferred amounts					
For issuance premiums (discounts)	116,837	-	(15,729)	101,108	15,729
Total bonds payable	10,601,837	-	(745,729)	9,856,108	765,729
Capital leases	579,894	270,594	(177,480)	673,008	208,143
Government loans	800,000	-	(100,000)	700,000	100,000
Compensated absences	444,031	305,464	(334,314)	415,181	17,307
Net OPEB Obligation	510,564	144,685	(37,928)	617,321	-
Net pension obligation	2,243,067	309,348	-	2,552,415	-
Impact fee credits	128,045	106,259	(151,441)	82,863	-
Long-term liabilities	<u>\$ 15,307,438</u>	<u>\$ 1,136,350</u>	<u>\$ (1,546,892)</u>	<u>\$ 14,896,896</u>	<u>\$ 1,091,179</u>
<b><u>Business-type Activities</u></b>					
Revenue Bonds	9,352,014	-	(173,564)	9,178,450	229,229
Government loans payable	269,993	-	(53,999)	215,994	53,999
Compensated absences	110,043	76,366	(83,451)	102,958	31,305
Net pension obligation	636,213	176,256	-	812,469	-
System development charge credits	932	-	-	932	-
Long-term liabilities	<u>\$ 10,369,195</u>	<u>\$ 252,622</u>	<u>\$ (311,014)</u>	<u>\$ 10,310,803</u>	<u>\$ 314,533</u>

#### **NOTE 8 – RISK MANAGEMENT**

The City of Battle Ground is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created to provide a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 168 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

In the past three years, there have been no settlements that exceeded coverage.

#### **NOTE 9 – PROPERTY TAXES**

The Clark County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

<b>Property Tax Calendar</b>	
January 1	Tax is levied and become an enforceable lien against properties
February 14	Tax bills are mailed
April 30	First of two equal installment payments is due
May 31	Assessed value of property established for next year's levy at 100 percent of market value
October 31	Second installment is due

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible.

The city may levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services, subject to limitations by the Washington State Constitution and the Revised Code of Washington 84.55.0410.

The city's regular levy for 2016 collections was \$1.75 per \$1,000 on an assessed valuation of \$1,606,931,280 for a total regular levy of \$2,807,748.

#### **NOTE 10 – PENSION PLANS**

##### **A. Employee Retirement Systems and Pension Plan**

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ 3,364,884
Pension assets	\$ 453,785
Deferred outflows of resources	\$ 871,731
Deferred inflows of resources	\$ 110,057
Pension expense/expenditures	\$ 412,345

### State Sponsored Pension Plans

Substantially all city full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

### Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

**Contributions** - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%.

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

**PERS Plan 2/3** members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

**Contributions** - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>

\* For employees participating in IBM, the contribution rate was 15.30%.

The city's actual PERS plan contributions were \$168,403 to PERS Plan 1 and \$219,948 to PERS Plan 2/3 for the year ended December 31, 2016.



### **Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**

LEOFF membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters, and as of July 24, 2005, emergency medical technicians. LEOFF is comprised of two separate defined benefit plans.

**LEOFF Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

20+ years of service – 2.0% of FAS  
10-19 years of service – 1.5% of FAS  
5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include duty and non-duty disability payments, a cost-of living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

*Contributions* - Starting on July 1, 2000, **LEOFF Plan 1** employers and employees contribute zero percent, as long as the plan remains fully funded. The LEOFF Plan 1 had no required employer or employee contributions for fiscal year 2016. Employers paid only the administrative expense of 0.18 percent of covered payroll.

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

*Contributions* - The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>LEOFF Plan 2</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee</b>
State and local governments	5.05%	8.41%
Administrative Fee	0.18%	
<b>Total</b>	<b>5.23%</b>	<b>8.41%</b>

The city's actual contributions to the plan were \$106,584 for the year ended December 31, 2016.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2016, the state contributed \$60,375,158 to LEOFF Plan 2. The amount recognized by the city as its proportionate share of this amount is \$68,790.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation:

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%.
- Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.



### Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

### Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

### Sensitivity of the Net Pension Liability/(Asset)

The table below presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 1,843,334	\$ 1,528,597	\$ 1,257,746
PERS 2/3	\$ 3,380,933	\$ 1,836,287	\$ (955,893)
LEOFF 1	\$ (31,256)	\$ (52,617)	\$ (70,875)
LEOFF 2	\$ 1,124,985	\$ (401,168)	\$ (1,551,443)

### Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

### Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the city reported a total pension liability of \$3,364,883 for its proportionate share of the net pension liabilities and \$453,784 for its share of net pension assets as follows:

	Liability (or Asset)
PERS 1	\$ 1,528,597
PERS 2/3	\$ 1,836,287
LEOFF 1	\$ (52,617)
LEOFF 2	\$ (401,168)

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the city. The amount recognized by the city as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the city were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share	\$ (52,617)	\$ (401,168)
State's proportionate share of the net pension asset associated with the employer	(355,898)	(261,532)
TOTAL	\$ (408,515)	\$ (662,700)

At June 30, the city proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.02924%	0.02846%	-0.00078%
PERS 2/3	0.03777%	0.03647%	-0.00130%
LEOFF 1	0.00505%	0.00511%	0.00006%
LEOFF 2	0.07205%	0.06897%	-0.00308%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

#### Pension Expense

For the year ended December 31, 2016, the city recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 38,791
PERS 2/3	248,237
LEOFF 1	(7,356)
LEOFF 2	132,674
TOTAL	\$ 412,345

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ 38,488	\$ -
Contributions subsequent to the measurement date	85,822	-
<b>TOTAL</b>	<b>\$ 124,310</b>	<b>\$ -</b>
<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 97,781	\$ (60,619)
Net difference between projected and actual investment earnings on pension plan investments	224,708	-
Changes of assumptions	18,980	-
Changes in proportion and differences between contributions and proportionate share of contributions	11,305	(41,082)
Contributions subsequent to the measurement date	112,091	-
<b>TOTAL</b>	<b>\$ 464,865</b>	<b>\$ (101,701)</b>

<b>LEOFF 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings on pension plan investments	\$ 5,348	\$ -
<b>TOTAL</b>	<b>\$ 5,348</b>	<b>\$ -</b>

<b>LEOFF 2</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 54,971	\$ -
Net difference between projected and actual investment earnings on pension plan investments	144,154	-
Changes of assumptions	1,513	-
Changes in proportion and differences between contributions and proportionate share of contributions	20,767	(8,356)
Contributions subsequent to the measurement date	55,803	-
<b>TOTAL</b>	<b>\$ 277,208</b>	<b>\$ (8,356)</b>

Deferred outflows of resources related to pensions resulting from the city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>	<b>LEOFF 1</b>	<b>LEOFF 2</b>
2017	\$ (9,476)	\$ (6,859)	\$ (1,105)	\$ 207
2018	(9,476)	(6,859)	(1,105)	207
2019	35,347	160,861	4,632	121,279
2020	22,094	103,931	2,927	84,174
2021	-	-	-	7,182
Thereafter	-	-	-	-

## B. Postemployment Benefits

### **Plan Description**

As required by the Revised Code of Washington (RCW) Chapter 41.26, the city provides lifetime medical care for members of the Law Enforcement Officers and Firefighters (LEOFF) retirement system hired before October 1, 1997 under a single-employer defined benefit healthcare plan administered by the city. State statute provides that the city's responsibility for medical payments of LEOFF 1 retirees is secondary to any other coverage retirees receive or are eligible to receive. Coverage through one of the city's employee medical insurance programs is provided to retirees.

### **Funding Policy**

Funding for LEOFF retiree healthcare costs is provided by the city as required by RCW. The city's funding policy is based on pay-as-you-go financing requirements. For the year ended December 31, 2016, three retired officers received medical insurance. The payment for insurance is made from a combination of current budget funding authority and from a reserve within the general fund. The city has established the LEOFF Medical Reserve to mitigate the impact of this liability. The plan is not currently funded. However, the LEOFF I Medical Reserve within the general fund, as of December 31, 2016 was \$45,840. This is not an irrevocable trust or restricted.

### **Annual OPEB Cost and Net OPEB Obligation**

The city contributed \$37,928 during the year ended December 31, 2016. This amount differs from the Annual Required Contribution (ARC) because the plan is financed on a pay-as-you-go basis. The ARC is the amount that, if contributed yearly, would fully fund the health subsidies by the end of the 15 year amortization. The ARC is made up of the normal yearly cost plus the amortization of the current unfunded actuarial accrued liability.

The City of Battle Ground used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 55.3 was assumed for all active members for the purpose of determining the actuarial accrued liability (AAL) and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2011 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2013. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and net OPEB obligation (NOO) are amortized on an open basis as a level dollar over 15 years. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The following table shows the components of the city's annual OPEB cost for the fiscal year ending December 31, 2016, the amount actually contributed to the plan, and changes in the city's net OPEB obligation.

Annual required contribution	\$	170,183
Interest on net OPEB obligation		20,423
Adjustments to the annual required contribution		<u>(45,921)</u>
Annual OPEB cost		144,685
Contributions		<u>(37,928)</u>
Increase in net OPEB obligation		106,757
Net OPEB obligation, beginning of year		<u>510,564</u>
NET OPEB obligation, ending of year	\$	<u><u>617,321</u></u>

The city's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year ending 12/31	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 144,685	\$ 37,928	26.2%	\$ 617,321
2015	\$ 167,451	\$ 45,358	27.1%	\$ 510,564
2014	\$ 110,571	\$ 44,070	39.9%	\$ 388,471

#### Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the city and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The specific actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Valuation Date	12/31/2016
Actuarial Cost Method	Projected Unit Credit
Method used to determine the actuarial value of assets	N/A
Interest Rate for Discounting Future Liabilities	4.00%
Projected Payroll Growth	3.75%
Investment Return	N/A
Healthcare Cost Trend Rate - Initial	6.2%
Healthcare Cost Trend Rate - Ultimate	4.6%
Amortization Method	Level Dollar
Amortization Period - Open	15

#### C. Health and Welfare

The City of Battle Ground is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans

and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.



#### NOTE 11 – CONTINGENCIES AND LITIGATION

The City has recorded in its financial statements all material liabilities based on available information. In the opinion of management, the city's insurance policies are adequate to pay all known or pending claims.

The city participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. City management believes that such disallowances, if any, will be immaterial.

#### NOTE 12 - RECEIVABLE BALANCES

Amounts are aggregated into a single accounts receivable line for governmental activities on the *Statement of Net Position*. Below is the detail of receivables for the general, nonmajor governmental funds and internal service funds in the aggregate:

Receivables	General	Nonmajor Governmental	Internal Service	Total Governmental Activities
Accounts	20,505	18,454	-	38,959
Property taxes	52,432	-	-	52,432
Sales taxes	521,390	-	-	521,390
Motor Vehicle Fuel Tax	-	63,292	-	63,292
Other taxes	516,616	-	-	516,616
Municipal court	228,153	-	-	228,153
State	80,739	5,302	-	86,041
Grants	8,719	7,959	-	16,678
Investment interest	5,656	9,686	711	16,053
	<u>\$ 1,434,210</u>	<u>\$ 104,693</u>	<u>\$ 711</u>	<u>\$ 1,539,614</u>

#### NOTE 13 – JOINT VENTURE

##### Discovery Clean Water Alliance

The Discovery Clean Water Alliance (Alliance) was formed under the Joint Municipal Utility Services Authority Act, Chapter 39.106 RCW. The purpose of the Alliance is to provide cooperative, environmentally sound, and cost-effective municipal wastewater transmission and treatment to participating members. The four Alliance members, Clark County, Clark Regional Wastewater District, City of Battle Ground, and the City of Ridgefield, signed an Interlocal Formation Agreement (IFA) on September 27, 2012. The Alliance was incorporated with the Washington Secretary of State on January 4, 2013. The Alliance is governed by a Board of Directors (Board) comprised of one elected official appointed from each of the participating members.

A two year transition work program was initiated and continued through 2014. During this period, operator agreements, franchise and asset transfer agreements, and 2015-2016 capital plans and operating budgets were adopted by the Board. The Alliance was fully operational as of January 1, 2015.

Annual regional service charges are paid by the City of Battle Ground to the Alliance. The city's responsibility for regional asset operating costs is based on actual use of regional services during the previous year (or years) as measured by average annual flow. Responsibility for capital costs is based on agreed-upon allocated capacity. The city paid the Alliance regional service charges of \$2,184,058 in 2016.

The Alliance has a separate audit and financial information about the Alliance is on their website at [www.discoverycwa.org](http://www.discoverycwa.org).

#### **NOTE 14 – OTHER DISCLOSURES**

The Battle Ground Transportation Benefit District (TBD), established October 6, 2014, is a quasi-municipal organization created by City of Battle Ground Ordinance No. 14-15 under the authority of the Revised Code of Washington (RCW) 35.21.225. The TBD's boundaries are the same as the corporate limits of the city and is governed by the seven member city council acting in an ex-officio and independent capacity. The city, through an interlocal agreement with the TBD, provided administrative services and financial management. Resolution 002-04, approved December 14, 2014, imposed a \$20 vehicle registration fee within the district's boundaries, effective July 1, 2015. Funds generated are used for transportation improvements that construct, reconstruct, preserve, maintain and operate the existing transportation infrastructure of the City of Battle Ground consistent with RCW 36.73. In 2015, the TBD was reported as a blended component unit in the city's financial statements.

Washington state transportation funding bill 2ESSB 5987, effective on July 15, 2015, provided changes to transportation benefit districts. Changes provided by this legislation allow a city that has a TBD with the same boundaries as the city to absorb the TBD and assume all the TBD's "rights, powers, functions, and obligations." City council approved Ordinance 16-03 on March 7, 2016 which assumed these rights, powers, functions, and obligations of the Battle Ground TBD. TBD revenues and expenditures are reported in the Street Fund, a special revenue fund in the city's financial statements.

#### **NOTE 15 – ACCOUNTING AND REPORTING CHANGES**

For the fiscal year ended December 31, 2016, the city considered or implemented the following GASB pronouncements:

- A. GASB Statement No. 72, *Fair Value Measurement and Application. Accounting and Financial Reporting for Pensions*. Effective for financial statements for periods beginning after June 15, 2015, this statement addresses accounting and financial reporting issues related to fair measurements. See Note 3 for statement implementation.
- B. GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Effective for fiscal years beginning after June 15, 2015, this statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. See pension reporting for statement implementation.
- C. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Effective for fiscal years beginning after December 15, 2015, this statement reduces the



GAAP hierarchy to two categories. The statement has been considered and there is no impact to the city's financial reporting.

- D. GASB Statement No. 77, *Tax Abatement Disclosures*. Effective for fiscal years beginning after June 15, 2015, this statement requires disclosure when governments enter into tax abatement agreements. This statement has been considered and the city does not have any tax abatement disclosures.
- E. GASB Statement No. 78, *Pension Provided Through Certain Multiple-Employer Defined Benefit Pension Plan*. Effective for fiscal years beginning after December 15, 2015, this statement addresses accounting and financial reporting standards for defined benefit pensions that meet the criteria in paragraph 4 of Statement 68. The city is subject to the requirements of GASB 68 and has included any required accounting and financial reporting changes per GASB 78.
- F. GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Effective for fiscal years beginning after December 15, 2015, this statement establishes criteria for an external investment pool to qualify for reporting investments at amortized cost. See Note 3 for the city as a participant in external investment pools.
- G. GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The city has retrospectively presented covered payroll in accordance with the GASB. See Notes to Required Supplemental Information – Pension.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Other Post Employment Benefits Schedule of Funding Progress

**City of Battle Ground**  
LEOFF 1 Retiree Healthcare Plan  
As of December 31  
Last 3 Fiscal Years

Year Ended December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability AAL Entry Age (b)	(UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2016	0	\$ 1,892,161	\$ 1,892,161	0	n/a	n/a
2015	0	\$ 2,077,494	\$ 2,077,494	0	n/a	n/a
2014	0	\$ 1,408,153	\$ 1,408,153	0	n/a	n/a

NOTE 1 - Alternative method used for valuation

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

**City of Battle Ground**  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 1  
As of June 30  
Last 3 Fiscal Years

Year Ended June 30	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.028463%	\$ 1,528,597	\$ 3,693,562	41%	57.03%
2015	0.029242%	1,529,629	3,351,697	46%	59.10%
2014	0.028952%	1,458,471	3,191,502	46%	61.19%

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

**City of Battle Ground**  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 2/3  
As of June 30  
Last 3 Fiscal Years

Year Ended June 30	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.036471%	\$ 1,836,286	\$ 3,693,562	49.72%	85.82%
2015	0.037773%	1,349,651	3,351,697	40.27%	89.20%
2014	0.037276%	753,483	3,191,502	23.61%	93.29%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

City of Battle Ground  
Schedule of Proportionate Share of the Net Pension Liability  
LEOFF 1  
As of June 30  
Last 3 Fiscal Years

Year Ended June 30	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	TOTAL	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.005107%	\$ (52,617)	\$ (355,898)	\$ (408,515)	N/A	N/A	123.74%
2015	0.005052%	(60,888)	(411,845)	(472,733)	N/A	N/A	127.36%
2014	0.005011%	(60,773)	(411,067)	(471,840)	N/A	N/A	126.91%

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

**City of Battle Ground**  
Schedule of Proportionate Share of the Net Pension Liability  
LEOFF 2  
As of June 30  
Last 3 Fiscal Years

Year Ended June 30	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	State's proportionate share of the net pension liability (asset) associated with the employer	TOTAL	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.068973%	\$ (401,168)	\$ (261,532)	\$ (662,700)	\$ 2,255,979	-17.78%	106.04%
2015	0.072053%	(740,561)	(489,682)	(1,230,243)	2,091,273	-35.41%	111.67%
2014	0.070077%	(929,952)	(607,276)	(1,537,228)	1,950,149	-47.69%	116.75%

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

**City of Battle Ground**  
Schedule of Employer Contributions  
PERS 1  
As of December 31  
Last 3 Fiscal Years

Year Ended December 31	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$168,403	(\$168,403)	\$0	\$3,530,474	4.77%
2015	148,282	(148,282)	\$0	3,382,133	4.38%
2014	132,646	(132,646)	\$0	3,288,709	4.03%

**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

**City of Battle Ground**  
Schedule of Employer Contributions  
PERS 2/3  
As of December 31  
Last 3 Fiscal Years

Year Ended December 31	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 219,948	\$ (219,948)	\$ -	\$ 3,530,474	6.23%
2015	190,375	(190,375)	-	3,382,133	5.63%
2014	164,325	(164,325)	-	3,288,709	5.00%



**REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans**

**City of Battle Ground**  
**Schedule of Employer Contributions**  
**LEOFF 2**  
**As of December 31**  
**Last 3 Fiscal Years**

Year Ended December 31	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2016	\$ 106,584	\$ (106,584)	\$ -	\$ 2,110,577	5.05%
2015	104,689	(104,689)	-	2,073,049	5.05%
2014	103,449	(103,449)	-	2,048,503	5.05%

**City of Battle Ground**  
Notes to Required Supplemental Information - Pension  
As of December 31  
Last Three Fiscal Years

**Note 1:** Information Provided

GASB 68 was implemented for the year ended December 31, 2015. Therefore, no data is available for years prior to 2014.

PERS 1 employer contributions include the PERS 1 employer contributions of PERS 2 and PERS 3, which are required to fund the unfunded actuarially accrued liability pursuant to RCW 41.45.060.

**Note 2:** Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms, or in the use of different assumptions.

**Note 3:** LEOFF 1

For LEOFF 1, there is a net pension asset. However, there are no active employees participating in the plan, and no required contributions because the plan is fully funded.

**Note 4:** Covered payroll

Covered payroll has been retrospectively presented in accordance with GASB 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68, and No. 73*. Covered payroll now includes all payroll on which a contribution is based. In prior reports, Plan 1 UAAL covered payroll was included for plans other than PERS 1.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

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